

# The Value and Management of Knowledge

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# The Context I

## ● We know

- > 50% of firm value is intangible
- > 70% of MNE firm value is intangible
- Intangible assets are the most transportable and scalable of competitive advantages
  - ❖ Hence, larger more multinational and more successful firms rely on more effective management of intangible assets

## ● Knowledge creation is:

- an iterative process of external and internal linkages and interactions ..... That is
- filtered through organizational practices and individuals ...that
- impacts on decision making .... that
- drives innovative outputs .... that
- determines financial performance outcomes



**Management of Knowledge ⇔ Management of Innovation**

# The Context II

## We know

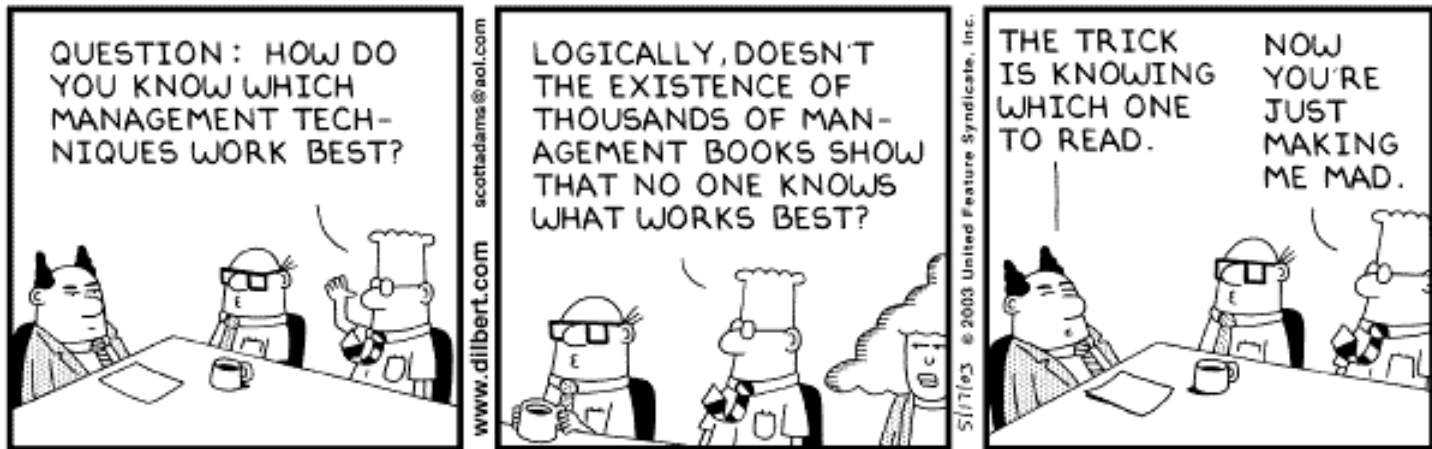
- That most attempts at innovation fail
  - ❖ Conventional wisdom puts the number at around 85%
- That most attempts at innovation are not ‘radical’
  - ❖ Conventional wisdom puts the number at around 90%
- Hence .....
- ❖ Most innovations that fail do not do so because they are ‘radical’

## Similarly, it is well understood that

- More \$\$\$\$ ≠ more success at the project level
- More   ≠ more success at the project level
- Hence ....
  - ❖ something more than financial and physical grunt is involved

# The Context III

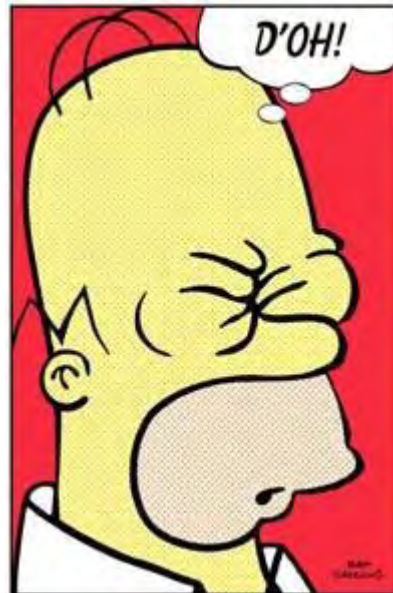
- Finally, most managers know the conventional solutions
  - “Unlike cutting costs, or making an acquisition, innovation does not happen just because the chief executive wills it. It is confoundingly difficult to come up with new ideas year in, year out – especially brilliant ones. Underneath the gurus’ diagrams and charts, most of the available answers seem to focus on two strengths that are difficult to create by diktat: a culture that looks for new ideas, and leaders who know the ones to back.” *The Economist*, 4/12/99



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# The Context IV

- According to the Conference Board
  - ❖ Have a 'high level' oversight individual chartered with managing innovation/IP
  - ❖ Establish an organization in support of new business ideas
  - ❖ Have a 'top down' policy requiring targets from new products/services below a certain vintage
  - ❖ Give individuals authority to act on their ideas





# DILBERT<sup>®</sup>

BY  
SCOTT ADAMS



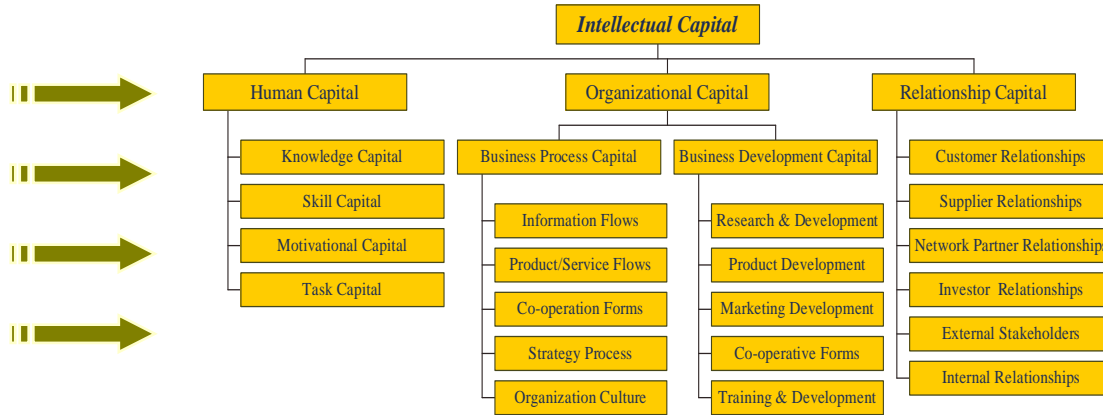
# The Main Issue

- The fundamental problem with all of this is that it treats innovation as just another ‘function’ like accounting, marketing, operations, etc., to be ‘managed’
  - Although in some theory this is good, it neglects to understand the nature of innovation process

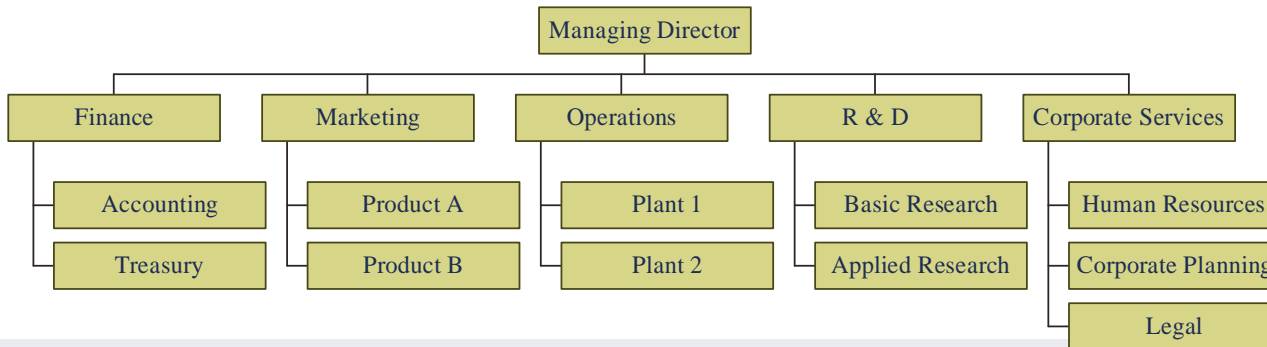


# Ideas Do Not Follow Functional Lines

Innovation/Knowledge Management



But most of our organizations look like this



# And We Know the Implication

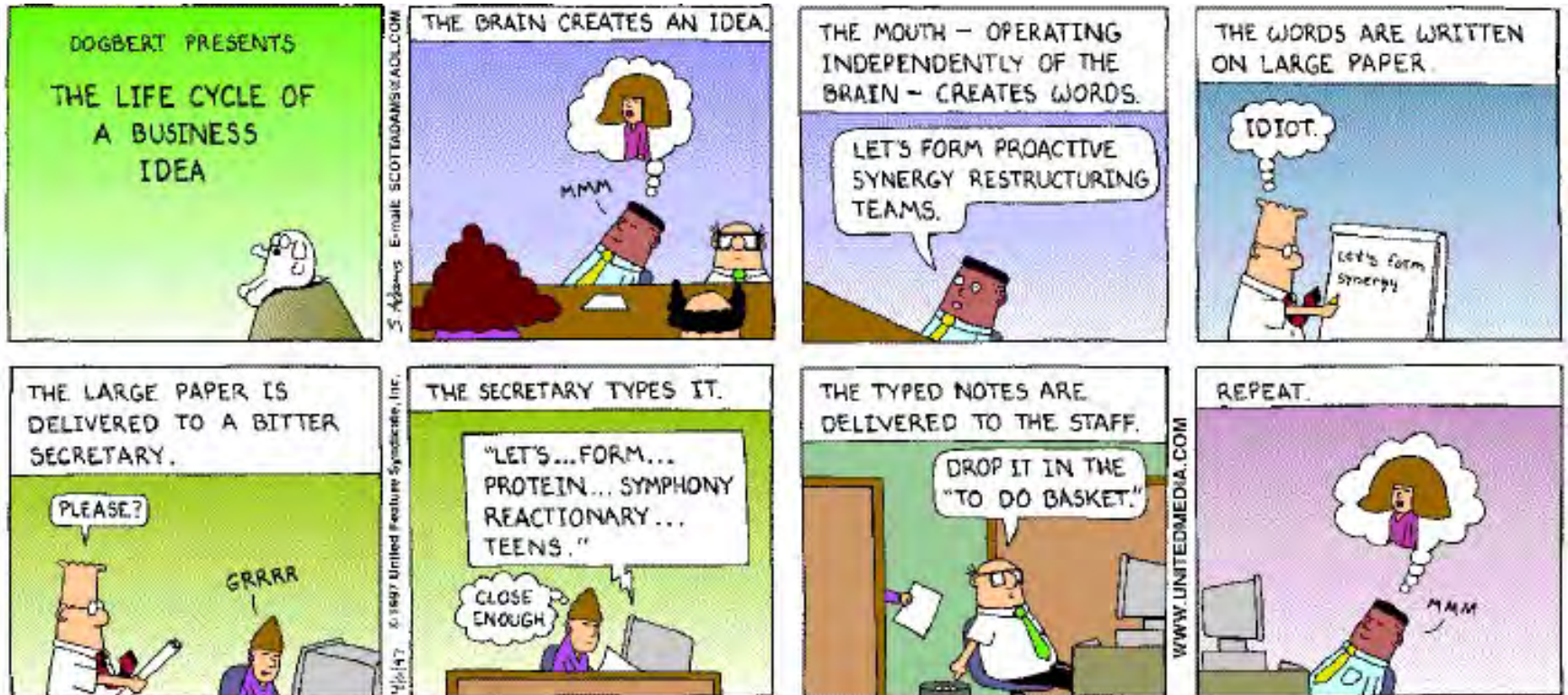
Industry	Average Ranking of IP	Number of Items Ranked Above IP <sup>a</sup>	IP Rank/Highest Ranked Activity <sup>b</sup>	Highest Ranked Activity	Lowest Ranked Activity
Mining & Manufacturing	8.00	9	3.73	Finance	Information Technology
Utilities & Construction	8.55	9	2.61	Customer Satisfaction	Intellectual Property
Wholesale & Retail	6.13	6	2.88	Customer Satisfaction	Shareholder Relations
Transport	9.00	9	5.40	Customer Satisfaction	Intellectual Property
Finance	8.11	8	4.56	Customer Satisfaction	OHSA/IP
Technology	5.00	4	2.19	Customer Satisfaction	Shareholder Relations
Other Services	7.40	7	3.08	Customer Satisfaction	Information Technology
Government	8.91	9	2.88	Customer Satisfaction	Intellectual Property
University	4.00	3	1.65	Customer Satisfaction	Shareholder Relations
Healthcare	6.00	7	4.50	Customer Satisfaction	Shareholder Relations
<b>All Industries</b>	<b>7.28</b>	<b>9</b>	<b>2.76</b>	<b>Customer Satisfaction</b>	<b>Intellectual Property</b>

<sup>a</sup> Maximum number of items is 9

<sup>b</sup> Lower numbers indicate smaller difference between highest ranked item and IP.

# Ideas Do Not Follow Functional Lines

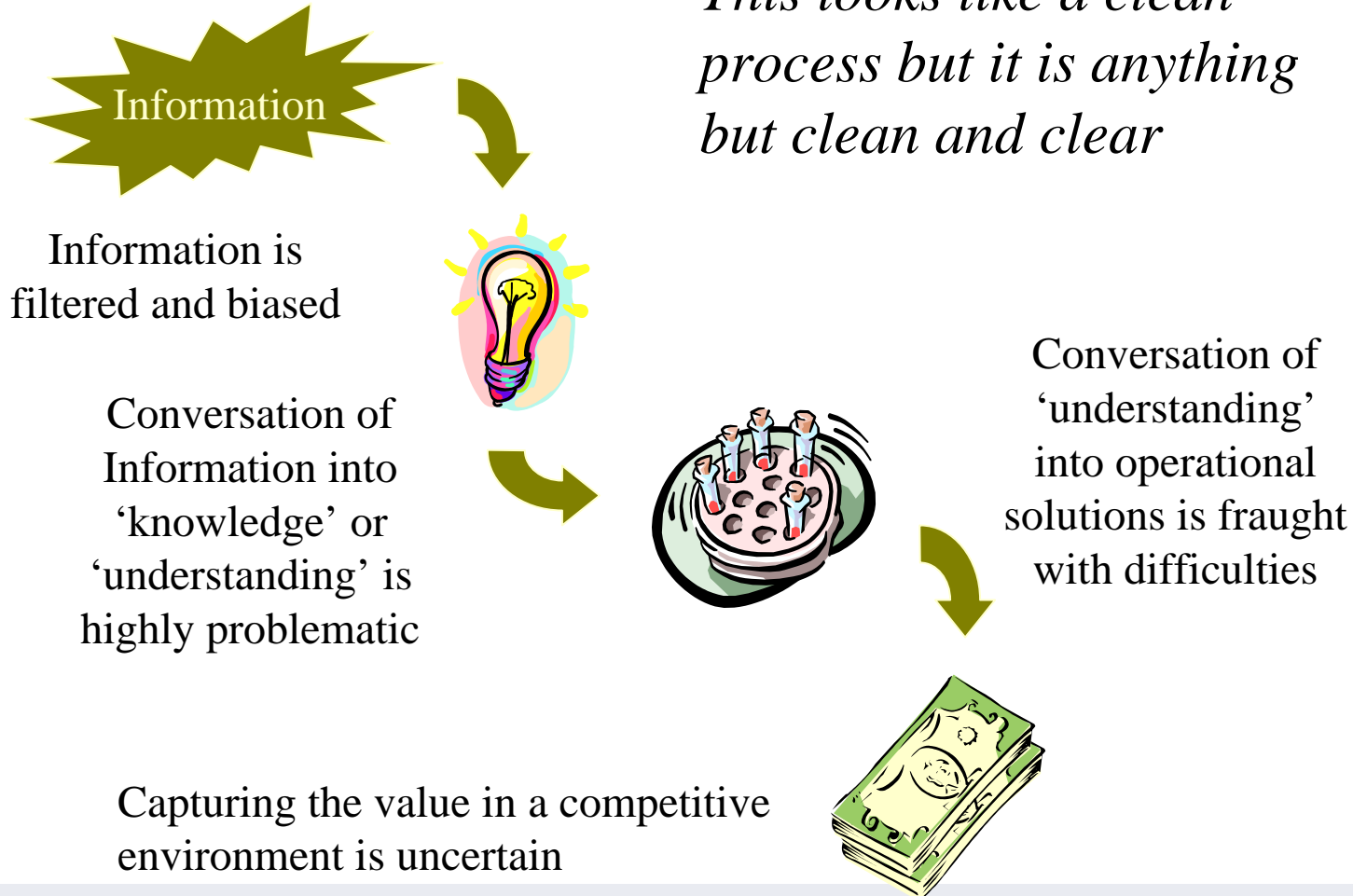
And this tends to focus effort along managed operations with deliverables related to budgets and measurable outcomes within specific time frames of the decision makers





# A Traditional Model of Innovation Process

## Overarching Logic



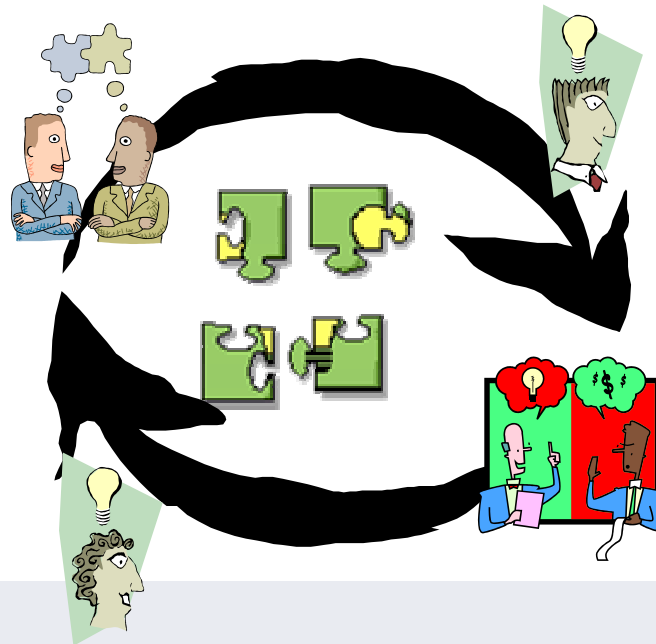
# But the Biggest Problem is Operational

- How do you innovate when >90% of the effort in the business is associated with managing current customers and budgets?
- This is made worse by the differential nature of innovation

## Separable Model



## Integrated Model



# The Questions Raised

- Most companies, particularly in the case of FMCG and services operate (and do indeed need to operate) with the integrated model
- As organizations outsource more and more the components of the integrated model can no longer be operated by administrative fiat
- This makes effective innovation difficult as:
  - All components must be made better off by the activity
  - All components must feel that the distribution of benefits is fair
  - Integrated components must feel that 'ownership' is well established

# For More Information

- IP in Australian Organizations (project with Freehills)
  - [www.ccc.agsm.edu.au/papers/symposia/IP\\_in\\_Aust\\_Organisations.pdf](http://www.ccc.agsm.edu.au/papers/symposia/IP_in_Aust_Organisations.pdf)
- Knowledge management and Innovation
  - Soo, Christine, Devinney, Timothy, Midgley, David and Anne Deering, “Knowledge Management: Philosophy, Process, and Pitfalls,” *California Management Review*, 44, 4, Summer 2002