Chapter 11

How Knowledge Assets are Transformed into Value: The Case of Knowledge Flows and Service Productivity

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ABSTRACT

This chapter concentrates on exploring the knowledge asset value creation in the context of a specific type of business activity, services, and a specific value creation aspect of productivity. The paper utilizes knowledge flows as a novel conceptual tool to analyze and better understand the knowledge asset value creation dynamics. The chapter clarifies the knowledge flows of service production and proposes that the recognition and management of these flows facilitate productivity improvement. This argument is based on the assumption that by removing the possible obstacles or bottlenecks of knowledge transfer, organizations can increase both their internal efficiency and through a better customer satisfaction also their external productivity.

INTRODUCTION

It is nowadays a well-known fact that the role of knowledge assets (or intellectual capital) is significant for a company’s value creation process (e.g., Schiuma et al., 2007). Knowledge assets form the basis for value creation and competitiveness (Grant, 1996; Sveiby, 1997). Organizations create value – such as profits and customer benefits – by utilizing and leveraging their knowledge assets.

There are currently numerous models available which help identify the key knowledge assets for a given organization (e.g., Schiuma et al., 2008). In addition, there are managerial models which facilitate the management (e.g., measurement, valuation, reporting and development) of knowledge assets (e.g. Mouritsen et al., 2003). Furthermore, there are some models and tools which help to understand the knowledge asset value creation dynamics, i.e. how the knowledge assets are turned into value. Examples of these
models include the strategy map (Kaplan & Norton, 2001), the knowledge assets value chain (Carlucci et al., 2004) and the knowledge assets value creation map (Carlucci & Schiuma, 2007).

Models such as the strategy map appear managerially valuable for visualizing and communicating the knowledge asset value creation dynamics. However, while their strength lies in their visualization power, uncertainty regarding the underlying value creation mechanisms is a weakness. How can managers sketching a strategy map really understand how knowledge assets actually create (or destroy) value? The starting point of this paper is the need for a better understanding of knowledge asset dynamics (cf. Schiuma, 2009).

On a conceptual level, one way to concretize the knowledge asset value creation dynamics is to examine the knowledge flows taking place during the value creation activities (Laihonen, 2009; Schiuma, 2009). Knowledge flows are here seen as channels through which humans, information systems and organizations interact and transfer information. In modern organizations these flows constitute complex networks and the efficient management of these networks becomes a crucial success factor for any organization. This paper utilizes knowledge flows as a novel conceptual tool to analyze and better understand the knowledge asset value creation dynamics.

One of the challenges of the research stream discussing knowledge asset value creation is the diversity of the issues within the concepts of ‘knowledge assets’ and ‘value’, and also their contextual nature. What this means in practice is that (A) different assets are important in different organizations (in different industries; while deploying different strategies), (B) the assets may be used in different ways to create value and (C) the issues pursued as valuable varies (e.g., which stakeholder’s needs are prioritized). As a result, it is difficult to find any generic “laws” or models to explain the phenomenon.

In this paper, we will concentrate on exploring knowledge asset value creation in the context of a specific type of business activity, namely services, and a specific value creation aspect, namely productivity. Services form a growing and extensive sector in most industrialized countries. Services provide a particularly fertile ground for the research on knowledge assets because often their activities rely very strongly on employee competence, brand and other knowledge assets and also because the products offered are mostly intangible in nature (Lönnqvist and Schiuma, 2010). On the other hand, productivity (output produced relative to inputs used) of services is a particularly problematic issue. In many (labor-intensive) service industries there is strong pressure to improve the productivity of activities.

This paper builds on the view that the recognition and management of organizations’ knowledge flows leads to an increase in productivity. Service productivity in the previous literature is seen as “a combined effect of how well a service provider manages the cost efficiency of its service production resources and processes and the perceived quality of its services” (Grönroos and Ojasalo, 2004). Services provide an interesting context for studying knowledge flows because, in addition to the diversity of the service organization’s internal knowledge flows, customers’ active role in the service production adds another layer to this complexity. Therefore, it is important to analyze these interaction processes and how knowledge accumulates and is transferred in service production.

This paper takes a holistic view to organizations’ knowledge processes rather than concentrating on only certain functions such as knowledge creation, accumulation or utilization. Knowledge (asset) management as a field of study originated from productivity and performance issues but in many cases this connection has been forgotten (see Paloma Sánchez et al., 2009). Recent literature on knowledge management has had a strong focus on streamlining the internal processes of an organization but there is a lack of published research on the productivity improvements gained