IC and Strategy as Practice: A Critical Examination

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ABSTRACT

The purpose of this paper is to provide insights into, and a critique of, the relationship between IC and different approaches to strategy in developing competitive advantage in the knowledge economy. The authors examine the ‘practice’ of developing strategy to offer a different view on thinking about strategy from an IC lens, using the example of an Australian music school. The paper is novel because it analyses critically how IC can apply to developing strategy and how to implement IC strategically in practice. IC and strategy have been evolving along parallel paths, converging along the concept of practice. The paper contributes to both the literature on strategy and IC by concluding that, rather than being concerned with becoming an IC or strategy “practitioner”, people should be concerned with becoming “participants” involved in developing the future and thus better connect to praxis in the workplace.

Keywords: Intellectual Capital, Knowledge Economy, Praxis, Strategy Practitioners, Strategy as Practice

1. STRATEGY FROM AN IC LENS

Developing a competitive advantage is seen as the ‘Holy Grail’ of business: eternally elusive yet continuously sought after. So while the search for the ‘Holy Grail’ continues, the world’s economy has undergone its biggest evolution since the industrial revolution, transitioning into what we know as the ‘knowledge’ or ‘information’ economy (Teece, 1998; Guthrie, Ricceri, & Dumay, 2000; Petty, Guthrie, & Johanson, 2001). In this ‘new’ economy, utilising knowledge and intangible assets is considered the heart of developing competitive advantage and thus economic value.

Popular views of traditional strategy developed during the industrial age (Ghemawat, 2002) and may have lost their relevance in the new economy. Therefore, if these strategies are applied in the wrong context, then rather than enhancing a firm’s chance of success, they may be detrimental. The purpose of this paper is to develop insights into and critique (Alvesson & Deetz, 2000) four popular strategic management frameworks taught in business schools (Teece, Pisano, & Shuen, 1997; Ghemawat, 2002; Ricceri et al., 2010) and their applicability towards developing a competitive advantage in the ‘new’ economy. We consider this important because the link between strategy and intellectual capital (IC) is often overlooked by the concern for managing, measuring and reporting IC (Dumay & Rooney, 2011a).

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The paper is novel because it critically analyses how these frameworks apply to developing strategy where the key resources are intangible. After the initial analysis we then examine how the ‘practice’ of developing strategy (Whittington, 1996; 2006) can draw on the insights and critique, and offer a different view on thinking about strategy from an IC lens using an illustration from our past research. This paper explores the use of strategy and IC using a case study approach. It focuses on a strategy planning and execution exercise undertaken by one of the authors in an Australian musical school. The study finds that rather than relying on expert IC or ‘strategy practitioners’ to construct and implement, it is important to expand this to include ‘strategy participants’ who live in the context of their workplace. The paper adds to the literature on understanding strategy as practised.

Before proceeding it is necessary to define IC because there is not one generally accepted definition of IC (Ricceri et al., 2012). However, Stewart’s (1997, x) is used in this paper:

...the sum of everything everybody in an organization... knows that gives it a competitive edge... Intellectual Capital is intellectual material, knowledge, experience, intellectual property, information... that can be put to use to create wealth [competitive advantage]

Here the focus is not just the sum of defined components, but rather the way that the components interact and work to create value for the organisation.

The remainder of the paper is structured as follows. Section 2 provides a literature review through an IC lens of four dominant strategy frameworks (i.e., competitive forces; strategic conflict; resource based view; and dynamic capabilities approach). Section 3 briefly presents the theoretical lens for examining the transformation of IC into strategic practices. It also outlines the context of the research site of the Australian music school. Section 4 provides an analysis of the findings and Section 5 concludes the paper.

2. INSIGHTS INTO STRATEGY AND IC

Discussing strategy from an IC lens is useful because one of the reasons firms employ IC practices is to develop a competitive advantage over their rivals (Marr, Gray, & Neely, 2003, p. 444). Also this is a fundamental purpose of strategic management (Teece et al., 1997). Thus, combing IC and strategy helps with understanding how IC practices contribute towards competitive advantage. Teece et al. (1997, p. 510–1) identify four dominant strategy frameworks (i.e., competitive forces, strategic conflict, the resource based view of the firm, and the dynamic capabilities approach), which we will examine from an IC perspective. These have been chosen because they represent “a fairly linear development ... into the efforts to understand the determinants of industry profitability and competitive position” (Ghemawat, 2002, p. 37).

2.1. Competitive Forces

The competitive forces approach is known through Porter’s (1980) five forces framework with its origins in the economic sub-field known as “industrial organization”, which sought to explain “why some industries were more profitable than others” (Ghemawat, 2002, p. 53). In the framework five industry level forces impinge on a firm’s ability to compete in an industry and to attain economic rents by impeding competitive forces. These forces are identified as entry barriers, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among industry participants (Porter, 1980).

Here there is some recognition that specific intangible assets of a firm play a role in the competitive forces context, for example “brand identity” and the relational capital between buyers (customers), suppliers and the government. However, competitive forces are the main differentiating factors used to explain industry level profits in a relatively stable competitive environment. But in the ‘new’ knowledge
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