

At the Knowledge Advantage Conference held November 11-12, 1997, Dr. Sveiby gave a presentation. Bill Spencer of the National Security Agency wrote a summary of the presentation, which is given below.

Knowledge Focused Strategy  
Dr. Karl Eric Sveiby

Karl Eric Sveiby has researched and written about the management of knowledge and knowledge organizations since the early 1980s. I was fortunate to have read his most recent book, *The New Organizational Wealth: Managing and Measuring Knowledge-Based Assets* just before the conference. I highly recommend it; the author has combined extensive business experience and a broad base of academic research in a very readable volume that presents leaders with a framework for understanding and acting upon the new realities of knowledge-based organizations.

The following notes are taken from his address at the conference, and are covered in greater detail in his book.

The value creating assets of organizations are fundamentally shifting toward intangible knowledge.

The market value of companies as reflected in their stock prices routinely exceeds the value of their tangible assets (book value) by a wide margin. At the end of 1996, INTEL had:

Market Value	\$110B
Tangible Book Value (Visible Equity)	\$ 17B
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Intangible Assets (Invisible Equity)	\$ 93B

This equity is found in three areas:

External Structure - image, relationships with customers, suppliers, stakeholders

Internal Structure - Patents, brand names, systems, processes, culture, management

Individual Competence - competence, education, experience, skills, attitudes, energy

((readers may note the strong parallels with the Customer Capital, Structural Capital, Human Capital elements of the model offered in Tom Stewart's book *Intellectual Capital*. Sveiby began with this approach but discarded the term "capital" because knowledge assets don't really behave like tangible capital; it grows when used, loses value when hoarded, and is potentially unlimited. ))

Sveiby used his model to describe the knowledge strategies of organizations by representing the three components as three overlapping circles, a classic venn diagram.

At the intersection of all three circles was the core business of the organization.

Each circle showed the primary business strategy for external structure, internal structure, and individual knowledge. In each of the three areas where only two circles overlapped, he showed the strategies in place for interaction between those two components. In doing so, he was able to show how different strategies and areas of emphasis contribute (or failed to contribute) to the core business of selected organizations.

Companies overlook the value of intangible revenues, despite the fact that these are critical precursors to profit. For example:

Customers Bring:

learning to employees  
new product ideas

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competitive intelligence  
R&D projects  
leveraging solutions

These are a real driver; selecting desirable customers, ones with high potential for intangible revenues, is critical.

Sveiby distinguishes between strategies focused on Knowledge and those focused on Information:

#### Knowledge Focused Strategy

Assume: knowledge is “sold” as a process.

Then close client relationships are required.

These lead to an unlimited capacity to create & increase revenues, which produces increasing returns from intangibles, so that people are seen as sources of revenue, not costs, meaning we must invest in relationships...

Advantages:

Unique - not possible to copy (because of the relationship requirement)

Effective - uses intangible revenues

Creates new business opportunities

Flexible - people are the only dynamic force

Leverages people's unlimited creative capacity

Disadvantages:

Hard to qualify

New paradigm - perceived as risky

#### Information Focused Strategy

Assume: Information is sold as an object

Economy of scale drives production costs

Large volume, mass market

Forces primary investment in Information Technology

Knowledge is sold as a derivative

Increasing returns come from being first

People are seen as cost.

Advantages:

Control - computers easy compared to people; knowledge made tangible

Easy - established industrial age framework

Efficient - people as costs, replaced by IT

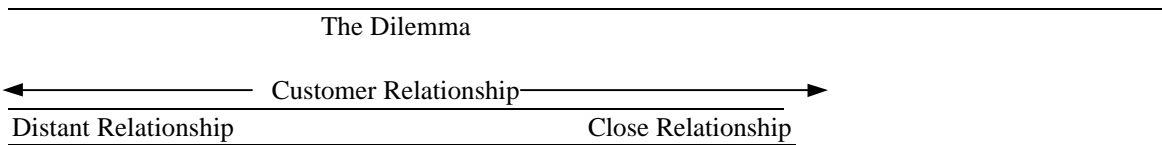
Quantifiable - financial accounts

Disadvantages:

Not effective - under uses people's creative capacity

Easy to copy - must run faster and faster

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Industrial Organization

Factory  
 Products  
 Mass Markets  
 Efficiency  
 People = Costs  
 Tangible Revenues

Knowledge Organization

Consulting Firm  
 Processes  
 Client Relationships  
 Creativity  
 People - Revenues  
 Intangible Revenues

Which Model To Choose? Where to Find Balance?

Industrial Organizations that pursue an Information Focus - logical extension of Taylorism  
 Knowledge Organizations pursuing an Information Focus - Danger zone, fragile competitive advantage  
 Industrial Organizations that pursue a Knowledge Focus - Uncharted waters  
 Knowledge Organizations pursuing a Knowledge Focus - New Paradigm, consulting firms in the lead

Sveiby's Dialogue for Knowledge Strategy:

Core Business: How can we maximize leverage of all intangible assets in working for customers?

Individual Competence: How do we create environments that transfer tacit knowledge? How can we improve trust among people?

Interaction: Which IT systems support tacit knowledge transfer?

Internal Structure: How can the rewards system be changed to support knowledge focus? How can we create a knowledge space for knowledge transfer? How can we change internal control systems to reflect intangibles?

Interaction: How can we capture data into systems supporting dialogue with customers?

External Structure: How can we improve relationships with customers and supplier that bring intangible revenues?

Interaction (with Individual Competence) : How can we build better relationships with customers and suppliers that bring learning to our people?

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