

Chapter 2.23

A Knowledge Management Framework to Manage Intellectual Capital for Corporate Sustainability

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ABSTRACT

The significant development in knowledge management (KM) literature in recent years is a reflection of the growing interest to academics and practitioners/consultants involved in organisational change and business transformation. Knowledge is a major source of competitive advantage and knowledge assets/intellectual capital has to be managed effectively. The importance of implementing a knowledge management strategy to understand the relationship between physical and intellectual capital, to increase the market value of organisations and achieve corporate sustainability is examined. Using case studies of construction organisations and applying the *STEPS* knowledge

management framework, it was found that there is a greater need for multinational organisations to implement KM. This is because they have knowledge that is diverse and geographically dispersed across a network of organisations. It is concluded that knowledge management has a catalytic role in developing intellectual capital to achieve corporate sustainability. The *STEPS* framework will enable multinational organisations to identify the reform, resource implications and the results of KM activities.

INTRODUCTION

Knowledge is seen as a major source of competitive advantage and managing knowledge assets or intellectual capital is important. This is

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increasingly recognised as crucial in many sectors, industries and type of firms, particularly in multinational organisations. Knowledge is vital for business improvement but “it is not the knowledge of the organisational members *per se* which is of critical strategic importance, it is the firm’s productivity in building, integrating and utilising its intellectual capital which is vital” (Jordan & Jones, 1997 p393).

Multinational organisations recognise the value of knowledge assets as a source of wealth creation. The need to bring knowledge assets to the centre stage in formulating strategic business objectives is critical in creating and maintaining a competitive advantage. Demarest (1997 p383) noted that ‘firms without knowledge management systems will be effectively unable to achieve the reuse levels required by the business model implicit in the markets they enter, and will lose market share to those firms who do practice knowledge management’. As multinational organisations transform to global network organisations, they face a number of challenges relating to their human resource policies and practices, strategy and performance (Novicevic & Harvey, 2004). Human capital and knowledge strategy such as advice and knowledge sharing networks plays a pivotal role in the transformation process and in knowledge transfer across organisational boundaries and borders. Knowledge management is therefore important in multinational organisations because of their global networks; and the difficulty to determine ‘who knows what’ in such geographically dispersed organisations (Robinson *et al* 2005a). Whilst an increasing number of multinational organisations now perceive managing knowledge assets or intellectual capital as crucial, there are major challenges associated with the implementation of knowledge management activities.

This chapter examines the importance of managing knowledge assets and presents a knowledge management framework to facilitate a structured approach in developing intellectual capital for corporate sustainability. The chapter starts by

exploring the relationship between knowledge assets and business performance. The rationale and business logic for managing knowledge assets and measuring intellectual capital is explained. The role of knowledge management in corporate sustainability, the concept of the *STEPS* knowledge management maturity framework and its application are discussed drawing on the recent experiences of multinational construction organisations. Organisational readiness to implement knowledge management such as identifying the resources required, reform needed and the results monitoring mechanism that underpins the *STEPS* framework as well as future challenges are also discussed.

KNOWLEDGE ASSETS AND BUSINESS PERFORMANCE

The traditional view is that business performance is measured in terms of physical capital such as buildings, plant and equipment. They remain essential for the production of goods and services and the capital required (debt and equity) for financing business operations. Financial measures are normally incorporated in conventional balance sheets and accounting systems enabling managers to provide information on how much a company is worth in terms of cash in the bank, value of its land, plant and buildings, working capital and inventories. The dominance of financial indicators in measuring business performance such as sales and turnover, profit, market share, return on investment, and number of new customers is a reflection of traditional business and accounting practices. However, the emergence of the knowledge intensive organisations such as professional services firms in accounting, engineering, architecture, surveying, law and management consulting has seen intellectual capital replace physical capital. Samuel DiPiazza Jr, Global Chief Executive Officer of PricewaterhouseCoopers, and Robert Eccles, former professor at Harvard Business

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