Chapter 6.8
Managing Intellectual Assets in Small Knowledge-Intensive Organizations

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ABSTRACT

The chapter focuses on how small KIBS (Knowledge-Intensive Business Service) firms manage their knowledge-based processes, or what are termed "intellectual assets." It finds that approaches to the strategic management of intellectual assets varies significantly according the size and type of KIBS firm. Differences in these approaches impact on the development of effective innovation processes, with resource deficiencies in smaller firms constraining their innovation capability. New technology-based KIBS firms are less likely than traditional professional service KIBS firms to have effective formalised learning systems in place, and generally operate within a more 'fluid' working environment. Measures of absorptive capacity indicate that firms perceive gaps in their ability to assimilate and apply knowledge which they recognise to be of strategic importance. The authors conclude that small KIBS firms face particular challenges in managing the innovation process and establishing sustainable knowledge management practices, and may benefit from targeted policy intervention.

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INTRODUCTION

Knowledge-Intensive Business Services (KIBS) firms supply knowledge products or use knowledge to support their clients' own knowledge generation and knowledge processing activities (Miles et al., 1995; Muller & Zenker, 2001; Miles, 2005).

The KIBS sector covers activities such as computer services, R&D services, legal, accountancy and management services, architecture, engineering and technical services, advertising and market research (Miles, 2005). KIBS firms rely heavily on professional knowledge to supply intermediate products and services that are knowledge based, fusing general codified (recorded) information with experience and tacit knowledge (den Hertog, 2000). KIBS firms are a subset of business services and can be grouped into two main categories, namely: traditional professional services, such as professional services, advertising, marketing and architectural services; and new technology-based KIBS firms, consisting of software design, engineering services and computer-related activities (Miles, 2005).

This chapter focuses on how small KIBS firms manage their own knowledge processes as part of their strategic management approach for creating competitive advantage. It operationalises the concept of intellectual assets (IA), which we distinguish from intellectual capital (although in practice the two terms are often used interchangeably) – assets being based on ownership or proprietorship, and capital on stocks – to study a sample of small KIBS firms. The study draws on concepts from the strategic management literature, such as the resource-based view of the firm (Wernerfelt, 1984; Barney, 1991) and absorptive capacity (Cohen & Levinthal, 1990), to understand how small KIBS firm value, accumulate, and utilise their IA. The analysis of strategic management within a small firm environment demonstrates that such firms operating in knowledge-intensive markets face a range of challenges in seeking to ensure they are effective knowledge-creating firms which maximise their own knowledge capabilities and strategies (Nonaka & Takeuchi, 1995). In other words, it illustrates the issues these firms face in becoming intelligent enterprises able to leverage their IA (Quinn, 1992), and demonstrates variations based on firm size and type.

In general, the management of IA within small firms is likely to be relatively informal, while in large firms more formal modes of management are required. Small firms are typically less bureaucratic than their larger counterparts, with often few, if any, complex management systems (McAdam & Reid, 2001). This leaves small firms with less 'ready made' infrastructure for the measurement, management and development of knowledge and other intangible assets (Chaston et al., 2001; Ward, 2004; Thorpe et al., 2005). Small firms often work in an environment of pervasive risk and high pressure (Lambe, 2002). All firms face environmental pressures, but this is magnified in a small firm which has less control over its immediate environment. Small firms are often preoccupied not with internal efficiency and effectiveness, but with maintaining turnover and seeking new opportunities (Wiklund & Shepherd, 2003).

Some of the key differences between small and large firms in relation to IA can be summarised as follows. Small firms are less likely to register patents or hold other forms of intellectual property rights. This is most likely due not to a lack of ideas but high costs, complexity, and administrative burden. Small firms are likely, particularly during their earliest stages, to embed much of their IA base in human capital (Honig, 2001). The fundamental ideas and processes supporting small firms at this stage are likely to depend upon the founder and immediate employees. High costs and small scale, particularly within service-based and knowledge based companies, will typically lead to lower quantities of tangible assets, such as machinery and buildings. Small firms are less likely to own less IT-based assets, such as complex knowledge management intranets, billing and automated procedures (Wiklund & Shepherd, 2003). Small firms, perhaps more so than larger firms, require agility and a capacity to liaise and work with external organisations (Thorpe et al., 2005).

Part of the key to management success is the allocation and transparency of responsibility for