

# Open Book

A recurring feature

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*A review of current publications relating to the field of Intellectual Property licensing, transfer and tools therein.*



## **“Comprehensive Intellectual Capital Management Step-By-Step” by Nermien Al-Ali**

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This is a resource that will be useful to the Intellectual Capital (IC) student, whether a formal student at a university or a practitioner who enjoys well crafted discussions.

Al-Ali raises the concern of whether the IC Model does more than create a new IC vocabulary and whether that vocabulary is truly useful (page 49). She provides to us an outline of a variety of Knowledge Measurement Models including the Balanced Scorecard and Sveiby’s “Intangible Assets Monitor,” and its nine cells; but she questions whether they are anything more than “tools to communicate the importance and value of IC throughout the organization” and whether they “fail to provide any guidance to business leaders and managers on how IC should be managed” [Page 50]. What do they do once they have this guidance? What do they do with these conflicting models? She proposes to provide the missing tools through her CICM Model.

Her position is that IC management must be placed into the context and reality of business management and must “be at the crux of business management and not a mere management tool.” A comprehensive approach is necessary (hence the title to her book). Her thesis is “that ICM should be seen as a total approach to strategic business management and not merely a compilation of all the previous approaches purporting to manage different styles of IC—an approach that purports to manage the organizational wealth of the whole enterprise, 80 percent of which is now intangible. The fact that 80 percent of corporate wealth in America and other developed economies is intangible makes ICM not a mere method or collection of processes to manage one resource of the enterprise, but an approach for the management of the entire enterprise.”

This will also involve an orchestrated interplay between the various disciplines involved—business, law, technology, accounting and industrial psychology. “The challenge is to understand the interplay between them

and bring them together in an effective way to enable an organization to realize, manage, and leverage its intellectual capital effectively.”

Her writing style is precise. Here is how she expresses why IC is important:

“An organization’s ability to compete is now dependent on how well top management identifies, manages, and leverages the organization’s IC. In particular, it depends on one or more of the following competencies:

- Speed with which the organization can acquire and apply knowledge (knowledge management)
- Ability to anticipate change in the market and respond to it (innovation management)
- Ability and speed to protect and leverage intellectual capital (IPM)
- Ability to assess the organization’s values and culture, and to adopt the culture that supports and fosters effective knowledge, innovation, and IP creation and management
- Ability to coordinate, oversee and synchronize organization-wide practices and programs related to all of the above through strategic alignment (CICM).”

Sometime she is almost poetic on this topic. “But the CICM model does not only bring different practices, objectives, programs, and tools together in an understandable framework. It also presents a methodology that harmonizes and synchronizes between the different programs needed under the various stages to liberate and leverage the value of IC, and hence enhance business performance. Above all, it develops a new management approach.”

Her book, she says, “will demonstrate with practical examples that to create and extract value from organizational intellectual capital, and create and sustain competitive advantage, an organization needs to adopt ICM as its modus operandi, rather than implement separate programs limited to one or few divisions.” Further she says at page 25:

“In a knowledge-and innovation-intensive economy, or, as I call it, one driven by IC-enabled economic dynamics, the art of strategic management involves the following questions.

- What do we know and need to know? How are we going to acquire the knowledge resources needed to attain the desired competitive/strategic position? Do we

develop such resources internally through knowledge sharing and transfer or externally through acquisition and partnerships? (Questions that pertain to the realm of knowledge management.)

- How are we going to utilize our brainpower to create our competitive advantage? By incremental or radical innovation? (Questions that pertain to the realm of innovation management.)

- How are we going to use our IC muscle to compete in existing and new markets? (Questions that pertain to the realm of IPM.)

- And, finally, what is the IC strategy that will enable us to sustain our competitive advantage? (Questions that pertain to the ICM model.)”

She abhors circles and pyramids—these are “so frustrating to many executives.” Previously she had referred to one of Sveiby’s diagrams where he had a display of circles and pyramids all in one chart. Sveiby: take note that this is frustrating. Also, Suzanne Harrison must take note—her pyramid which is so colorful and demonstrative of her topic may fit into this frustrating category!

The CICM Model (i.e., her model) is not another set of circles or pyramids. No indeed, instead of circles and pyramids she uses shelves (page 66) as in a library. The first shelf houses the model “Create Values: Knowledge Management,” the second houses the model “Extract Value: IM,” and the third and the top shelf houses “Maximize Value: IP Management.” These horizontal shelves are then divided by three vertical dividers: human capital, customer capital and structural capital. This is a good diagram and very skillfully avoids those frustrating circles and pyramids. But whether shelves and dividers frustrate these poor executives remains to be seen. For me it was useful, but I also found Sveiby and Harrison useful, so I am no test of low tolerance for circles and pyramids (and now shelves!).

Al-Ali is not without other biases as well. Rob McLean take note—she says that the “Total Value Creation Method” that you have worked on for some time is “experimental.” We expect something more concrete—nothing experimental—from you in your upcoming book on this topic.

Her language, which is usually so precise, occasionally falls into MBAese, which detracts from the merits of her points. For example, consider this dozer at page 175: “IP Synergy Teams (IPSTs) are cross-functional teams with the primary responsibility of operationalizing the commercialization IP strategies of the organization” (zzzzzz ...). Try to stay awake and stay with her because her analysis has merit over all.

Indeed this book is so dense and such a strong resource, it took me about twice as long to read it as I had expected. The book is meant to be read carefully with pauses to digest what has been said. After six hours, I had only reached page 150 (and I am normally a fast reader).

The first two-thirds of the book is an excellent summary of existing knowledge with her analysis of the merits of

existing models—a great contribution to the literature on this topic. The last portion is meant to be a manual for the implementation of her model CICM.

Nermien Al-Ali’s book is divided into three parts. First we get an overview of intellectual capital management. Here she provides a thorough (and perhaps academic) review of existing models of ICM. This is not written for the casual reader; this is for the serious student, whether the student be in university or a business practitioner. It provides an analysis of the merits of these models as you would expect of a good academic text. You can see her legal background as she carefully builds the case for the merits of her CICM model.

Part 2 is a discussion of the three stages of ICM, which are:

- (a) the acknowledgement of management stage;
- (b) the innovative of management stage; and
- (c) the intellectual property management stage.

Part 3 explains her “Step-by-Step Guide to the CICM Model” which she had introduced in the last chapter of Part 1.

In Part 1, after the critical review of IC Models, she has a chapter on IC Reporting, a topic of great interest to LES members—indeed one of the LES catalysts on this topic, Russ Barron, is mentioned in her preface. The following quotation is representative of her precise and concise writing style.

Before any progress can be made in relation to IC reporting, it is important to determine which of the approaches to IC reporting is more feasible or acceptable. Experimentation under each of the approaches may also be undertaken, to compare their effectiveness, provided it is clear which approach is adopted. It seems that regulatory or standard-setting bodies favor the first approach, for the gradual and slow pace of change that it involves and hence lower risk for stock markets. However, as explained previously, it lacks a clear methodological framework and may backfire by creating confusion and misrepresentation of the enterprise’s value. IC theorists and practitioners seem to favour the second approach for its focus on intellectual value drives of every enterprise in the knowledge economy. Nonetheless, the rudimentary state of research and experimentation based on the second approach, and hence the high level of risk involved, vitiates its present viability. That being said, the second approach still presents more promise for the development of a universal (i.e. comparable, reliable and consistent) IC reporting model.

The universal model presented here is based on the following propositions:

- Perceptions of value have differed in the knowledge economy, where more emphasis is placed on an organization’s ability to innovate and manage IC than its ability to acquire and manage tangible assets.
- Despite the fact that the main intellectual drivers of value are different for different industries and organizations, a number of value drivers are common to all in

the knowledge economy. These include: the strength of the organization's IC (the source of its livelihood and competitive ability); the percentage of value that can be attributed to IC; and demonstration of management ability to leverage IC.

- Indicators can be developed to monitor the common main value drivers described above, within and across industries.

A number of indicators can be developed for each of the common value drivers as follows:

the ideal KM situation, and identify milestones, targets, issues, and objectives.

3. *Stage Three: Identifying KM strategic goals and processes including measurement.* At this stage, KM is taken to the operational level through a number of programs and initiatives with defined objectives. Monitoring and measuring performance by reference to the objectives developed under Stage Two are essential to guide management as to evaluating the progress of the program and determining the required adjustments.

Common Value Drivers	Indicators
Human capital and how it is being leveraged (Innovation Index)	Idea Generation Rate Idea Implementation Rate Internal Profitability Rate External Profitability Rate Growth Potential Rate (based on all of the above)
Organizational knowledge (process capital) and how it is being leveraged (Renewal Index)	Time to Market, % of Revenue of Products introduced in the last 2 years, Customer Response Rate, % of Time and Revenue for Renewal
Intellectual Property and how it is being leveraged (Intellectual Property Index)	IP Capitalization Rate (either Total Brand Equity, Patent / Trade Secret Capitalization Rate, or Copyright Diversity Rate)

Part 2 provides a welcome relief from the academic style of writing by the insertion of Chapter 6: "The US Navy Knowledge System: A Case in Point." To this point, her book has not been experiential, it has been a critical codification of knowledge. Other texts have more of a storytelling or anecdotal nature (to use her phrase about a valuable method of knowledge transfer—page 97). It was interesting to read this chapter at the time of the latest Iraqi war. Even here you can see her style: organized thoughts in point form.

"According to the Navy's model, the journey to becoming a knowledge-centric organization is divided into seven stages. They include:

1. *Stage One: Building awareness of the concept.* At this stage, the organization is made aware of the concepts and terminology of KM. It also involves articulating in relevant ways the value of KM in attaining the strategic goals of the organization. This stage is particularly important for KM as the theoretical frameworks, which are very rudimentary in the new field, are developed.

2. *Stage Two: Exploring issues affecting knowledge sharing.* This is the stage at which knowledge audits and gap analysis are undertaken to assess the status quo of the organization's culture, leadership commitment, processes, resources, and practices. The goal of Stage Two is to determine the starting point, formulate a vision of

4. *Stage Four: Developing knowledge-sharing processes.* Once management obtains results from Stage Three, they will be in a better position to determine what works for the organization and to develop the best practices into defined KM processes. At this stage, management has a clear idea of how the KM program will be designed.

5. *Stage Five: Refining knowledge-brokering concepts.* In addition to the processes and practices implemented at Stage Four, the organization creates at this stage positions for owning and overseeing the various processes of KM.

6. *Stage Six: Building CoPs.* At this stage, the structure of the organization is augmented with informal communities that work on creating and sharing new knowledge in areas of strategic importance to the organization.

7. *Stage Seven: Review the journey.* At this stage, ways to review and continuously monitor the KM initiatives are implemented, with the focus on promoting learning."

Part 3 contains her CICM Model that she has invited us to critique as a result of her salesmanship throughout the book. I leave the criticism to the more sophisticated reader; to some extent, time will only tell as her model gets adopted in practice. In some ways I wish that she had developed her CICM model a bit more in Part 3; this is the jewel for the practitioner but she seems to have expended her critical analysis style in the first two Parts. I am a lover

of checklists but this one may be too concise.

Al-Ali's first chapter in Part 3 (Chapter 10—"First Get Your Act Together") is weak. Perhaps a college student needs to know what a vision statement is and how important culture is to an organization, but the practitioner student needs to quickly get on to her model. The groundwork was built; don't break the pace with a reiteration of what was stated better earlier. The practitioner should go straight to Chapter 11 and get on with the Step-by-Step Guide. Here is her significant contribution to those of us who need to put ICM into practice. We now have a practitioner's guide we can use, criticize, and improve on in practice. We will be very critical of her work as practitioners—some of it will be useful, some of it will be just the idealistic thoughts of a professor isolated from practice. What she has given us that others have not is a practitioner's guide set out carefully and thoughtfully to be used and criticized; she has not held back the crown jewels so that she can earn consulting fees.

Chapter 11 sets out her guide for Implementing Knowledge Management Under the CICM Model; Chapter 12, Implementing Innovation Management under the CICM Model; and Chapter 13, Implementing Intellectual Property Management under the CICM Model. (If you are really interested in intellectual property due diligence you might want to read another book out of Wiley's — "Intellectual Property Assets in Mergers and Acquisitions," which I will review shortly.) Chapter 14 closes out Part 3 with IC Strategy and Customizing the CICM Model.

Each of the Implementation Chapters sets out a series of Processes with various Steps under each process. Let me pick for your review one area that I felt she did a good job, being an area where in practice I have difficulty. Process 2 in Chapter 12, "Implementing Innovation Management under the CICM Model" is as follows:

To foster employee-driven innovation, the culture should be one that does not penalize failure, but rather sees failure as part of the learning experience—"fail soon to succeed later." As mentioned under Process 5, it is essential that the culture empower employees. With empowerment comes accountability, and that is when the highest level of creativity is cultivated. It is essential that employees be given the change to take part in the development of their ideas. That has a positive effect on the employees' morale, and hence innovativeness, as well as on the quality of the idea. The idea bank outlined under the CICM model is one that requires active involvement of employees in the development of concepts for new products and not simply in submission of ideas. A central department or decentralized NPD departments can be assigned to oversee the transfer of ideas that fit better with the strategy of other business units. The following steps are involved.

#### Step 1: Idea Submission and Building the Database

1. Create an idea bank or database and seek submissions from employees on defined areas by general reference to the strategic buckets of the innovation portfolio.

2. Alternatively, distribute the proposed innovation portfolio (with confidentiality measures in place) with its strategic buckets, with blank projects and resource allocation, to be filled by product and business development managers.

3. Arrange the ideas received under the type of business, level of innovativeness, required resources, time and the strategic bucket.

4. Create a file for ideas that do not fit into the innovation portfolio, and follow Steps 2 and 3 for their assessment.

#### Step 2: Assessment

This step deals with ideas that fall beyond the scope of the strategic buckets of the innovation portfolio.

1. Transfer the idea to the business unit with the closest fit for consideration under the business unit growth/development plan.

2. Allow free time and the granting of money to the originating employee for further research to develop product concepts in connection with the business unit.

3. If the business unit rejects the idea on the basis that it is outside the scope of its growth plan, then transfer to the venture capital unit for further consideration and action.

4. Refer ideas rejected for feasibility reasons to the originating employee for further study, and allow him or her time and resources (within defined budgetary limits) to produce a prototype and a presentation to senior management for further assessment.

#### Step 3. Prepare Idea Reports

1. Produce monthly idea reports that show rate of submission, rates of projects initiated based on employee ideas, and number of ideas implemented by their originators.

2. Prepare reports of rejected ideas with justifications, for further assessment.

3. Collect such reports from various business units and departments to assess their respective innovative activity.

4. Reward departments and units according to their idea generation and implementation records.

Lastly, she moves back to an academic book style with two mini-master appendices. The student will welcome these—the practitioner may have wanted more development of the CICM Model. There were times her CICM Model was just too precise for me, a knowledge-thirsty customer; I would have liked more development of some of the processes and steps. However I am greedy. Finally I get a book full of meat and I am still saying, "More Please."

In the end, a very useful book—a valuable resource for the student and practitioner. This sets the standard for books of its kind. Al-Ali has taken us well past the usual ICM material that all too often is only experiential and not academic, structured and analytic. Now we need practitioners to add to her resource with critical commentary. Perhaps she will favour us with a follow up book with discussions of more actual experiences where her CICM Model has been used.