
THE KNOWING-DOING GAP OF INTELLECTUAL CAPITAL IN MULTINATIONAL COMPANIES - CASE STUDY: SKANDIA GROUP

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Abstract: This paper aims to research the possibilities of the gap between knowing-doing in companies that implement the concept of Intellectual Capital (IC). Skandia is the best sample of IC concept and will provide a lot of useful information to conduct the respective project. As a multinational company, Skandia group, develops activities around the globe, and is the pioneer in implementing the concept of IC. Hence, it was chosen to be the subject of this case study research. The research includes interviews, with several people in different positions, in each management level into which every interview is interpreted through hermeneutic approach in order to achieve a better understanding of the phenomenon of the study. The research were made within different offices of company in various cities in Sweden. The study applies the descriptive case study approach, whilst investigated the possibility of gaps of IC between Knowing-Doing. The research shows that the concepts of IC and knowing-doing gap, could be found in headquarters of Skandia to a large extent, and this way basic assumption about a possible gap was verified. The implementation of IC within Skandia and its employees is for sure not completed yet. Also the shareholders are not convinced by the concept if one looks at Skandia's performance on the stock markets. Nevertheless it offers a rhetorically positive way to tackle future challenges. In that respect this study got a deeper understanding concerning Skandia and IC. The research made many things visible that were not seen in the literature so far.

Keywords: intellectual capital, multinational companies

INTRODUCTION

A lot of companies are having great ideas to improve their business performance. Only think of concepts like Just in Time, Total Quality Management, Outsourcing or Knowledge Management. Is Intellectual Capital (IC) just another fad, which has to be added to this list? IC refers to knowledge and builds an enterprise in a new way. There are many arguments that support all these concepts. Still, these concepts are not always applied. Or, if companies apply these concepts, do they really work? Are all those ideas, concepts and theories not worth the paper, they are written on? One might say that some of the concepts are only fads. If it is like that, why then does a company like Skandia invest in the concept of IC since the beginning of the nineties? Can that be a fad? And if not, is this concept adding value? The concept is seen as a way to tackle the challenges of the 21st century. It deals with knowledge as the source of value. So, when the concept of IC is implemented, there should be no major obstacles to success. However, there is more than one way to success and not every promise becomes reality. An explanation for this phenomenon could be that there is a gap between what people say and what they are actually doing.

The times, they are changing. Changes force organisations to rethink their way of doing business. Either they are willing and able to adapt to the changing business environment or they are about to fail. Not the producers determine the business life but the customers do due to their growing economic power. Many producers of goods and services make similar offers to its customers. They struggle for the same people that are not willing to buy a second washing machine, a third car or the fourth insurance policy. In other words, there is keen competition. So the organisations have to think in how far their offer satisfies the customers needs better than their competitors offer. And this thinking process should not only be done internally but should be shown to the customers. The customers demand additional value. Only those companies that can offer the value will succeed. Consequently there is a need for organisations to create values. This could mean that intangible values are added to tangible goods and intangible values are sold in tangible forms.

Organisations need to be focused continually in generating new ideas and innovations in order to navigate toward their future. Thus, adding value requires knowledge and creativity. The organisational knowledge can be identified as organisational Intellectual Capital (Stewart, 1998), that lead the research to the concept of Intellectual Capital (IC), which was developed mainly in the nineties of the 20th century but its origin goes back to the eighties (Sullivan, Patrick H. 2000). Skandia, a Swedish financial services company with activities around the globe, is the pioneer of IC. They added a supplement to its annual report 1994 named "Visualizing Intellectual capital" and gave evidence that the application of the IC model is possible (Stewart, 1998).

Therefore, the idea to research the knowing - doing gap of human resources within a company, led this study to Skandia group, which has developed in practice and within the company the concept of IC. The idea was derived from the balance sheet, which according to Skandia does not show the real value of the company. Therefore they tried to develop a concept, which values the intangible assets as well and gives a more realistic view on the company. The starting point for the concept of IC can be described as a gap, a gap between the measured values in the balance sheet and the real value of the company. But what is the real value? Top management of Skandia thought that the real value can be seen in the market value of the company. Therefore they based the Skandia value scheme on the market value. This had also the advantage that IC becomes measurable. It is simply the difference between market value and financial capital. The idea was developed when the market value was higher than the financial capital. The difference can be interpreted as the intangible assets, which are not part of the financial capital. In other words, the residual or gap is IC.

PROBLEM DISCUSSION

A lot of companies are having great ideas to improve their business performance. Only think of concepts like Just in Time, Total Quality Management, Outsourcing or Knowledge Management. Is IC just another fad, which has to be added to this list? As described in the background it refers to knowledge and builds an enterprise in a new way. There are many arguments that support all these concepts. Still, these concepts are not always applied. OR, if companies apply these concepts, do they really work? Are all those ideas, concepts and theories not worth the paper, they are written on? One might say that some of the concepts are only fads. If it is like that, why then does a company like Skandia invest in the concept of IC since the beginning of the nineties? Can that be a fad? And if not, is this concept adding value? The concept is seen as a way to tackle the challenges of the 21st century. It deals with knowledge as the source of value. So, when the concept of IC is implemented, there should be no major obstacles to success. However, there is more than one way to success and not every promise becomes reality. An explanation for this phenomenon could be that there is a gap between what people say and what they are actually doing. Pfeffer and Sutton wrote a book dealing with the gap between knowing and doing.

Their message is that it is not enough just talking, but talking should be met by doing the things said. In reality sometimes much emphasis is placed on what people say and so little emphasis placed on what they do. Yet, there might be a problem if behaviour differs from explicit intention. Within an American company that has 42 plants that do more or less the same with similar techniques is a difference in performance between the best and the worst plant of 300 % (Pfeffer, Jeffrey, Sutton, Robert I. 1999). This difference in performance cannot only be explained by a gap between saying and doing.

Therefore, this case study research is based on IC as a starting point for the investigation. According to Pfeffer, and according to this study assumption there could be a gap between what companies know and say (espoused values) and what they actually do. This study investigates if this gap exists in Skandia. In order to research this possible gap, the research was operationalised to the concept of IC. Hence, the research question is:

Is there a knowing – doing gap concerning IC within Skandia and if there is, how is Skandia dealing with it?

METHODOLOGY

The research is conducted with Skandia as the object of the study because they are the pioneer of IC. They have spent a lot of resources in the development of IC and hence, would be able to provide with valuable insights concerning IC. In this project were conducted interviews, with several people in different positions, in each management level into which every interview is interpreted through hermeneutic approach in order to achieve a better understanding of the phenomenon of the study. The research were made at Headquarters in Stockholm, Skandia Future Centre in Vaxholm and at the regional office in Växjö. The study applies the descriptive case study approach as the strategy for studying implementation processes of IC within Skandia because they are the pioneers concerning IC. Skandia will be the best sample of IC concept and will provide a lot of useful information to conduct the respective project. Hence, the study investigated the possibility of gaps between Knowing-Doing in Skandia.

THE SKANDIA GROUP

Skandia was founded in 1855 as a life insurance firm in Sweden. Since 1863 Skandia is listed on the Stockholm stock exchange. Skandia operates in 25 countries around the globe and has approximately 6300 employees. Skandia offers financial services for customers. The product variety consists of unit-linked assurance, mutual funds, sustainability-driven funds, life assurance, banking and asset management and health-care insurance. Furthermore, Skandia group, being a multinational company, is a major provider of products for long-term savings and investments around the world. Since then, Skandia had diversified its portfolio, offering pensions, mutual funds, and

health insurance. It also boasted a real estate arm and operated a telephone- and internet-only bank. It was a leader in the corporate insurance and pensions business and sought to double its volume in the private savings market. In 2014, Skandia became a mutual company owned by a large share of its 2.5 million customers. Insurance premiums paid amounted to \$ 4.7 billion in 2014, total assets under management (including funds) to \$ 65 billion (Skandia Report, 2014).

And, the whole concept of implementing IC in Skandia's was the idea of Jan R. Carendi. He hired Leif Edvinsson as Director of Intellectual Capital in 1991. Edvinsson's task was to visualise, measure and manage Skandia's future potential. Edvinsson and his team developed the Skandia Navigator, which then became the Dolphin system. Since 1998 the use of the Navigator became, on company level, mandatory.

Framework of knowing doing gap

As mentioned above the approach of the study is to interpret what exists and how others interpret what exists. It is widely recognised that many firms have gaps between what they know and what they do but the causes have not been fully understood.

1. When managers are not aware of gaps. This could be due to in-transparencies within the organisation or simply because managers do not consider the possibility of gaps within their organisation.
2. When managers know about these gaps, but just knowing (talking) about what to do is not enough. They put much more emphasis on the problem formulation and oral description than the necessity to derive action from their claiming. Other people in the organisation will evaluate these managers and their performance. Often these evaluations form at least two possibilities that are reasonably independent of one another.
 - a) We can form our impressions of others based on how well they perform and how well they get things accomplished, and what they contribute to the organisation through their actions. (Doing)
 - b) We can form our impressions of others based on how smart they seem. (Pretending to Be)

According to Pfeffer (Pfeffer 1999), there are five different factors, which contribute to creating gaps between Knowing and Doing, which are listed below:

✓ *Just talking not acting*

It is not enough to know what the "right things to do" are (and talk about them). Instead it is necessary to turn knowledge into action. Hence, organisational performance is about the manager's ability to turn knowledge into action.

✓ *Substituting thinking by memory*

There are organisations, which think that the present is just an imitation of the past. Therefore these organisations treat current situations with similar routines of the past. It refers to the corporate memory. An organisation's memory can be seen in its precedents, customs, or stories.

✓ *Fear as obstacle for acting on knowledge*

Knowing – doing gaps can occur when people fear that they could be punished when acting on their knowledge might have a bad outcome. Fear supports insecurity and this may lead to repeat common practises despite knowing that there are better ways to act. Although it is widely recognised that fear has a negative impact on people it is used as a management technique to "motivate" employees.

✓ *Hindering good judgement with measurement*

Measurement attaches importance to the things, which are measured. When unimportant things are measured or things are measured in the wrong way, e.g. to complex measurement systems, it will hinder to turn knowledge into action.

✓ *Friends become enemies due to internal competition*

Not only companies on the market compete but also people compete within an organisation. Competition is not determined by the human nature but by the cultural background. But mindless competition does not create a better output for most benefits are gained on the cost of the competitor. A competitive climate within a company could obstruct the learning process because people are not willing to share their knowledge with competitors and this leads to knowledge gaps within a company.

IC IN SKANDIA

Skandia is dealing with IC since the beginning of the nineties and is the pioneer concerning this area. Customer capital is one type of IC. IC assets are non-financial indicators of value, and measuring, managing and exploiting them will ensure the long-term economic growth. Use of intangible assets means profitability for Skandia. CC in Skandia is an intangible asset that is represented by the present value of customer relationships, emphasising the contribution this value makes to future growth perspectives. In Skandia establishment and maintenance of stable customer relations is considered as the key to profitability. The revenue and future growth derives from the value of

Customer relationships. Today, smart organisations are those who are striving to create lifetime relationships with customers. Lars-Eric Peterson, President and CEO wrote in the annual supplement report regarding CC that "...customer value, therefore describes our undiminished commitment to creating a greater customer focus, [...] and devising even more highly developed work procedures, services and systems." According to Skandia each of the 8 million customer relationships includes value, invisible value that for Skandia means a very important asset in navigating toward the future. Every customer contact is considered as an investment in a mutual value-creating relationship. Through new ideas, models and innovations, and continued working on development Skandia tries to make invisible capital visible. Skandia wants to create long-term growth in value by investing in customer relationships (Skandia report, 2000).

This claiming is based on Thomas Stewart's book "Intellectual Capital". It offered a good opportunity to relate Skandia's approach to study frame of reference as it mentioned some ways to invest in CC (Stewart, 1998). There is a world of investment opportunities:

- a) *Innovate with customers* - Successful innovation, even if it is not protected by patents, has always been a superb defence against a margin squeeze. The important advantage of innovating with customers is that an investment you make in R&D can be more productive if you already have a customer.
- b) *Empower your customer* - Empowered customers enormously increase the amount of information, and this will ensure the organisation to offer better services to their customer.
- c) *Focus on customers as individuals* - This means ability to respond flexibly to individual customers' desires. To build CC the share of customers is a better strategy than share of market: get your best customers to give you more of their business – e.g. not just a credit card, but checking and savings accounts, a mortgage, a retirement plan etc.
- d) *Share the winnings with your customers* - CC is wealth that is accumulated when the producer and the customer do not wrestle over surplus they have created together (cost savings, for example), but agree tacitly or openly to own it together. The closer the partnership between buyer and seller, the greater that surplus can be.
- e) *Learn your customer's business, and teach her yours* - The more you know about your customer's business, the better you can serve her. You cannot learn with customers if you leave the relationship entirely in the hands of a salesman or purchaser.
- f) *Become indispensable* - Use the information you have to provide a vital service to your customer, making it harder for him to switch to another supplier (Stewart, 1998).

These above described investment opportunities were the basis for collection of data for this case study research. They determined the questions that were asked and functioned as a guideline in the first loop of the project.

Research findings: Interpretation of empirical data

The interviews within Skandia and the study of relevant concepts broadened knowledge concerning Skandia, IC, and its application. There were detected many differences between knowing and doing, saying and doing, between espoused values and values in use, rhetoric and action. A numerous interviews were taken with employees of Skandia on different levels. They all were aware of a gap. The interviews in headquarters showed how they are dealing with the gap. According to the director Carl-Gustav, a gap between knowing and doing is no problem. They are aware of it and can handle it. Still, it can cause some problems. He gives the example of the customers. He thinks that it is not always clear who Skandia's customers are. They do not always have direct contact to the end-customers because they distribute their product with the help of independent distributors. The Swedish market is an exception because here they have their own sales force. But Skandia is operating in 24 other markets where they do not have direct contact.

The implementation of IC with the help of the Skandia Navigator is not done in every company of Skandia. It is only mandatory on the company level. Therefore, the level of implementation differs from company to company and the Skandia group is still working on the implementation. Some have it even on personal level for every employee, others have it only on the top level. For example Skandiabanken has it still not implemented totally, yet. This "laissez-faire"-strategy might enhance the creation of gaps between knowing and doing because the knowledge sharing cannot be done between all companies. There could be insight concerning specific problems in one company, which could be applied to other markets as well but these insights are not shared and therefore the learning process is interrupted. Skandia lets the companies decide and supports them if they want to start implementation. They want to create a mentality to share knowledge and a mentality will not so easily be created when it is a forced mentality. It might take a longer period of time until every company has implemented the Navigator and the Dolphin system, but Skandia assumes that the implementation will be much better when it is done voluntarily. For sure the implementation costs a lot of money. This might be another reason why Skandia is not implementing it everywhere the same time.

The gap between knowing and doing can be related to rhetoric. They cope with the gap in a long-term perspective. Referring to interviewees it is important to stick to the concept of IC. It functions as a target, as a vision. It is not important to reach this target, e.g. implementing IC and CC in all parts of Skandia, but to have something that is giving guidance and direction to Skandia's employees. It seems to us that Skandia is using the concept of IC in a rhetorically positive manner. Things that seem to be a gap are not really a gap but functional rhetoric. The people are affected by the idea. Some people were not so much convinced, like the people in Växjö. Still, they knew the concept and were using it at least to a certain extent. IC creates a certain commitment. Skandia is working on that very much. As a study outcome, the employees are trained in these matters. All employees made the impression that they at least do not dislike to work for Skandia. They all spoke of Skandia's high reputation. All interviewees gave the impression that it is something special to work for Skandia. Though, it could be their espoused theory. But we had no significant hints that there is incongruence concerning the theory in action. Skandia and the IC-model obviously support the creating of the Skandia people. One example can also be seen in the competence insurance. It not only gives the participants an opportunity to develop outside their job but it also creates a commitment to Skandia. The idea within Skandiabanken to break down the vision to each office and employee can also be seen as a step in this direction.

The espoused aim of IC is long-term profitability. Though, one can doubt whether Skandia has achieved it or will ever achieve it. They are dealing with these issues since the beginning of the nineties, meaning for more than ten years. Still they face financial problems and the performance on the stock markets is not better than its competitors. Skandia argues that this is due to external factors. But we think it is also due to the fact that not everyone understands Skandia's approach. Carl-Gustav supported this interpretation when he said that it was a mistake that they stopped writing the supplement reports. The values Skandia intends to create with the help of IC are not visible to the public and they are also not visible to every employee. If the ideas of IC were right, the results would be better when the implementation in the minds of employees would be higher. The implementation of IC within Skandia and its employees is for sure not completed yet. Also the shareholders are not convinced by the concept if one looks at Skandia's performance on the stock markets. Nevertheless it offers a rhetorically positive way to tackle future challenges. In that respect this study got a deeper understanding concerning Skandia and IC. The research made many things visible that were not seen in the literature so far. Therefore, this research project was considered to be successful.

CONCLUSION

It can be concluded that the concepts of IC and knowing-doing gap, could be found in headquarters to a large extent. There were found many hints, which indicated a knowing – doing gap. Furthermore, the research found Skandia's value scheme as base of IC, the Skandia Navigator as tool of IC and the Dolphin system as tool of the Navigator.

But when going from headquarters to operational units were found out how these concepts work in action. Basic assumption about a possible gap was verified. Though, one cannot say that the people in the operational units do not know anything about IC. They have some ideas and adopt certain aspects in their daily work. The question then is whether this gap is dangerous for Skandia or not and how is Skandia dealing with this gap?

The research shows that this can cause serious problems because Skandia will offer not the services the customers' demand and therefore cannot satisfy its customer's needs. If this happens, Skandia will soon be out of the market because no one will buy its products. There seems to be also a problem concerning the loyalty of customers. If the customer loyalty decreases in larger extents it will damage Skandia's reputation, which is, according to all interviewees, one big asset. People trust Skandia and have confidence in the company. But the negative PR related to the salaries of the CEO of Skandia seems to have influenced the reputation in a negative way. This is not due to the concept of IC but it is a problem and illustrates a gap between Skandia's espoused perception and the actual perception.

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