Soft thinking and intellectual capital assignment

Business, Management

{draw: frame} University of Glamorgan MSc International Logistics and Transport Programme/Strategic Procurement Management STRATEGY AS PRACTICE Soft Systems Thinking and Intellectual Capital Assignment 1 *Student No: *08193738 Assignment Date: 5 April 2009 *Submission Date:* 15 May 2009 Module Lecturer: Paul Davis Word Count:* * *2,* 600 Critically evaluate the role that Soft Systems thinking can play in promoting organisations Intellectual Capital.

To evaluate the benefits of Soft Systems Thinking (SST) in promoting an organisational intellectual capital it is necessary to understand the concept of Soft Systems Methodology and how this methodology can be used to foster teamwork, communities of practice and social learning, and whether these learning outcomes adds knowledge to employees, and leads to improved professional practice and efficacy. So what price do you put on learning – and as an intangible asset does it need to be measured to promote Intellectual Capital (IC) to support the " effective delivery of strategic goals by focusing management activities and processes".

Andriessen (2004). Soft Systems Methodology (SSM) advocated by Checkland and Scholes (1990) is a methodology based on applying systems thinking to non system situations. It is a holistic way of dealing not with the problem but the " situation" in where there are " social, political and human activities" Checkland and Scholes (1990). As opposed to " hard system methodologies, which can be quantified, measured and are technology orientated. Soft Systems takes a group of " actors" through a process of a shared " problem" appreciation.

Learning about the problem, then formulating a root definition of interrelated systems, these examine the relationships of the relevant subsystem: which are the stakeholders, such as customers, employees, the worldview (weltanschauungen) and the management who are " all active in the system and take collective action to improve the situation" Checkland (1981) Senge (1990) also describes systems thinking as having five learning disciplines, personal mastery, me_ntal models, shared vision, team learning, and the overarching discipline of systems thinking. Therefore, soft systems thinking is a tool that helps in the solving of problems involving human activities where the outcome is learning. Soft systems thinking can enable subjective perceptions of problems and potential solutions. Checkland and Scholes (1990). There are a number of different issues and approaches that can be used to develop a framework for the application of systems thinking for promoting the intellectual capital of any organisation.

Soft Systems Methodology (SSM) advocated by Checkland and Scholes (1990) helps to achieve a clearer understanding of organisational issues and problem " situations", as it approaches issues holistically. " System thinking is a discipline for seeking wholes, recognizing patterns and interrelationships, and learning how to structure those relationships in a more effective and efficient way " Senge and Lannon-Kim (1991. Therefore, managers having a range of skills and knowledge can add value to any improvement initiative. Rose and Haynes (2001) developed and used the methodology in a number of settings in the NHS and Iles and Sunderland (2001) cited the potential of SSM as an aid to implementing organisational change initiatives at King's College Hospital London. (Iles and Sunderland,

2001: 35) Soft systems thinking can help organisations to develop new perspectives, as it accounts for factors that otherwise would be ignored.

A human activity system, can compliment strategic frameworks, such as the " Balance Scorecard" to co-ordinate business activities and improve internal and external communications. Kaplan and Norton (1992) However, humans view problems differently because they come from different backgrounds, and have different cultural roots, experience, and education, and as a subsystem, different personalities and philosophies to life.

Therefore; if a group of managers at different management levels and different departments are all involved in a complex " problem situation", SST maybe an excellent tool to create a conceptual understanding of a problem, but it does not represent the real world, but by using system rules and principles it allows thinking to be structured, to develop some models, and the situation can be expressed as a rich picture Checkland, (1981); Checkland and Scholes (1990) Although, Checkland (1999) contrasts with the emphasis on reductionists thinking on obvious problems with definite solutions.

People interpret problem situations from particular standpoints and in terms of distinctive interests. Fortune and Peters (1995) speaks about ' complex discursive' networks challenging the understanding of systems, problems and solutions to problems. This system of relationships between people, activities, and the world is defined by Lave and Wenger (1991), as a Community of Practice, (CoP) ' which develops over time' and ' in relation to'

other central and overlapping communities of practice' and is a fundamental condition for the existence of knowledge.

The approach focuses on the " social interactive dimensions of situated learning". As people in the group interact with each other, establishing a relationship through mutual engagement and a sense of joint enterprise. Wenger (2000) describes three modes of belonging to a social learning system, as " engagement, imagination and alignment". These cannot be formed, but have to evolve overtime, as new members join and others leave. So how can organisations like the NHS establish communities of practice?

Brown and Duguid (2001a) suggests managers can seek to structure spontaneity, structuring fragmented practice across the organisation, they can encourage alignments of changing practices between communities thereby assisting the transfer of knowledge across the organisation. (Brown and Duguid 2001a). An equally important view has emerged under the banner of ' the knowledge-based view of the firm' (Grant 1996), emphasises the necessity of organisations to develop and increase the knowledge and learning capabilities of employees through knowledge gaining, knowledge sharing, and knowledge transfer, to achieve competitive advantage.

To take it further Lave and Wenger (1991) saw the gaining of knowledge as a social process, in which people participated in communal learning, but at different levels depending on their authority in the group. It is the shared commitment that binds the members of the CoP in a single social entity, and although members of the CoP build up tangible communal resources, such as written files, procedures, processes and policies, (hard knowledge) intangible

resources are also being built up such as experiences rituals and idioms (soft knowledge).

Hildreth and Kimble (2002) argued that the underlying problems of managing this knowledge was that Knowledge Management (KM) failed to recognise that knowledge itself consists of both hard and soft knowledge, much like the Chinese concepts of Yin and Yan and are mutually interdependent. " Knowledge by itself produces nothing; only when it is integrated into a task does knowledge benefit society. (Drucker 1992) Hislop (2004) examined three cases studies of CoP's in large European organisations and concluded that only one was successful in sharing knowledge between communities. The other two failed to do so because they did not share the same identity. So it could be concluded that although CoP's are self controlled and self directed, and maybe of value to the business organisation, the actual benefit and contribution to the organisation could also be uncertain.

Maybe, because group solidarity in human communities, is often at the price of hostility/non-cooperation towards non-group members. " There appears to be a natural human inclination for dividing the world into friends and enemies that is the basis of all politics. " (Fukuyama, 1995) So knowledge maybe personified tacitly in the experiences of a community of practitioners in an organisation or explicitly in the written files, but Knowledge Management (KM) is a critical task for any organisation.

Reducing tacit knowledge into numbers the organisation stands to lose money, although knowledge can be safely stored on computer systems – the

actual value could be lost if an employee leaves with the tacit knowledge on how to use the explicit knowledge. Employee retention/turnover is important as downsizing and retirement can cause a loss of shared knowledge and knowledge could be transferred to competitors and be damaging to an organisations competitive advantage. (Stovel and Bontis (2002).

Stovel and Bontis (2002) also advocate that " productivity will drop for a time due to the learning curve involved as new employees' gain the knowledge of the tasks involved and understands and learns from the organisational culture. Information and data can be stored but it is not until it has been processed in the minds of an individual and is communicated to others does it become knowledge (Alavi and Leidener 2001) so to make tacit knowledge explicit, there has to be knowledge transfer.

Knowledge transfer within and between organisations is not a one-way activity, but a process of trial and error, feedback, and mutual adjustment of both the source and the recipient (Von Krogh, 2003: 373). There have been a number of studies which have shown that some of the benefits of knowledge sharing/transfer can help solve problems and increase performance, adaptation, collaboration and innovation. (Constant, Sproull and Kiesler, 1996; Brown and Duguid, 2000).

However, there is a great deal of literature on knowledge management and innumerable definitions of knowledge and what knowledge is, Blackler (1995) describes knowledge as " multifaceted and complex, being both situated and abstract, implicit and explicit, distributed and individual, physical and mental, developing and static, verbal and encoded. " While

Fowler and Pryke's (2003) views the more human element of knowledge " as much the perception arising from information and refracted through the individual's personal lens".

Whereas, Knowledge Management Systems refers to information systems, particularly with the use of technology, which is adopted and designed to support employees, there is an emerging awareness that there is a social element to the area of knowledge management, which focuses on a more human centred approach, as a means of managing knowledge in organisations (Hildreth et el 1999) It is now recognised that the performance of any organisation, private and public is very much dependent upon the knowledge of the employees.

But, it is the social element or the concept of " social capital" and its role in knowledge management for developing and gaining competitive advantage, and more broadly intellectual capital (IC) popularised by Stewart in Fortune magazine (1994) which has relational elements and comprises of human capital, structural capital, and organisational capital (Edvinsson and Malone, 1997; Stewart, 1997; Sveiby, 1997; Guthrie and Petty, 2000) and is viewed also as being central to the sustainability of competitive advantage.

Edvinson and Malone (1997) defined human_ capital_ as the value of everything that ' leaves the company at five p. m. " That is to say that only the shared knowledge assets or the _structural _capital only remains, when employees walk out through the door. Social capital can be defined as a set of informal values or norms shared among members of a group that permits them to cooperate with one another. " If members of the group come to

expect that others will behave reliably and honestly, then they will come to trust one another.

Trust acts like a lubricant that makes any group or organisation run more efficiently. " (Fukuyama, 1999, p16) With trust and the co-operation in groups and the social interactions based on informal communication, the building of networks can have economic benefits, with the creation of business opportunities through networking as trust reduces the costs of contracts and legal actions and shared values can make negotiations more successful. Social capital may also create business opportunities by facilitating and exchanging semi – confidential information and mutual ncouragement. (Glaser, Edward L. , Laibson, David, and Sacerdote, Bruce 2002), Intellectual Capital is the intangible economic value of organisational capital (structures, processes and culture) and human capital (skills, behaviour and knowledge) and it is the intangible asset of knowledge that is now being added to the classical production factors of land labour and capital. Growth and innovation are now relying on the intellectual capital /knowledge of an organisation, and how it uses the knowledge to compete in the market (Kim and Mauborgine (1999).

The field of intellectual capital stems from the need of organisations to have to quantify assets. So efficient management of intellectual capital is directly linked to measurement and valuation (Andrieseen 2004) and has necessitated the introduction of reporting and valuations models for IC (Liebowitz and Suen 2000) and as the literature suggest the most popular measure of IC is the difference between the market value and the book value

of a knowledge based firm (Brennan and Connell 2000.) According to (Tuban and Aronson 2001) Knowledge is critically important because as an asset it appreciates rather than depreciates.

Knowledge increases so intellectual capital is going to improve. So by using systems thinking to promote Intellectual Capital could be a powerful approach for understanding the nature of ' problems situations' and the way they are dealt with and how to go about improving results. The key benefit of the system is that it involves seeing the whole picture and creates insights to problems and can nurture the way that communities of practice can co-operate and learn through shared knowledge and experiences.

System thinking is not an easy approach as it requires a substantial investment of effort, and thought, though the results can be more than worth the investment. Central to these ideas is that intellectual capital is 'embedded in both people and systems. The stock of human capital consists of humans (the knowledge skills and abilities of people) social (the valuable relationships among people) and organisational (the processes and routines within the firm)' (Wright et al 2001: 716).

But there are criticisms of Soft Thinks Thinking as the system is unable to deal with conflicting nature of social systems, and that it is a conceptual methodology and does not represent the real world, and the methodology implies that actors in a situation have the freedom to instigate change and that conflict does exist but the methodology relies on compromise. Douglas and MacGregor 1960 in his book " Human side of Enterprise " maintained

that there are two fundamental approaches to managing people. Many managers tend towards theory x, and generally get poor results.

Enlightened managers use theory y, which produces better performance and results, and allows people to grow and develop. Which demonstrates that you can't legislate for human behaviour and those humans also by nature can be territorial and will protect their domain, by advocating knowledge is power. Lave and Wenger (1991) fail to explore the implications of the distribution of power when discussing CoP and Marshall and Rollinson (2004) suggests that Lave and Wenger (1991) discussions of meaning can be misinterpreted as ' excessively quiescent and consensual' while in reality such activities are plagued by misunderstanding and disagreements.

Without trust the members of the community of practice may be reluctant to share knowledge, and may become static in terms of their knowledge base be resistant to change. There are limitations to the communities of practice but, its does allow the means to explore the transfer of tacit knowledge management tools focused on the codification of knowledge. But a community of practice is one of a number of knowledge management tools, and different organisations require different tools.

Other tools maybe needed to be developed to manage tacit knowledge as from the critic that soft thinking systems may not always be appropriate as a knowledge management tool. References Alavi, M. and D. Leidner 2001 Knowledge Management and Knowledge Management Systems: Conceptual Foundations and Research Issues MIS Quarterly 25(1): 107-136 Andriessen, D. (2004). IC valuation and measurement: classifying the state of the art.

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