

## The future of value creation and innovations: Aspects of a theory of value creation and innovation in a global knowledge economy

Jon-Arild Johannessen<sup>a,\*</sup>, Bjørn Olsen<sup>b</sup>

<sup>a</sup> Harstad University College, Norway

<sup>b</sup> Bodø Graduate School of Business, Norway

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### ABSTRACT

What enhances innovation and value creation in the global knowledge economy? We offer several answers here, chief among them this: Leaders need to move away from focusing on developing innovations and value within the mental models, systems, and organizational solutions of the old industrial economy, with its firm- and product-centric view of value. Instead, they need to focus on providing tailor-made products and services to the newly connected and interconnected customer. They can do this with individualized immediate feedback, a new organizational logic, and new cooperating structures.

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### 1. Introduction

In the 21st century, we are rapidly moving into what is being called a global knowledge economy, marked by increased turbulence, uncertainty, and ambiguity. But many organizations, resisting this revolution, or simply not knowing any better, continue to focus on value creation and innovations within the mental models, systems, and organizational solutions typical of the old industrial economy.

The new economy began emerging in the 1990s, just as ICTs started to revolutionize mass communication and gifted us with ready access to widely distributed knowledge. The main features of the new economy came to include major systemic changes; temporary rather than continuous competitive advantages; an obsession with speed; ever-shorter life-cycles for products and services; and new forms of competition between global competitors (Hitt, Ireland, Camp, & Sexton, 2002). Within this economic landscape, knowledge itself became a key factor of production—specifically, knowledge related to identifying and exploiting new ways to establish temporary competitive advantages (von Krogh, Ichijo, & Nonaka, 2000). We have also seen a growing literature related to the rise of the knowledge-based economy (e.g., David & Foray, 2003). The strongest driving forces behind this emerging knowledge economy have been various globalization processes as well as increased deregulation and liberalization (Cooke, De Laurentis, Todtling, & Trippl, 2007) in combination with the stunning progress

in, and proliferation of, ICTs. The knowledge economy appears to be a natural morphing of the industrial economy, with a continuing transformation toward even more knowledge-intensive activities.

The innovation literature is reflecting this revolution. We're seeing a stronger emphasis there on both wider varieties of innovations (see Johannessen, Olsen, & Lumpkin, 2000, for an overview) and on how innovations come into being. Hence, for example, we have seen a new focus on open innovations (Chesbrough, 2003, 2006) and customer-driven innovations (von Hippel, 1986, 2005), with both Chesbrough and von Hippel arguing that useful information, knowledge, and competence are in fact widely disseminated outside the boundaries of any particular enterprise. We are also seeing a change in focus on how value is created. Matthing, Sandén, & Edvardsson (2004: 479), arguing for a newly customer-centric view, contend that “value is defined and co-created with the customer and determined by the customer on the basis of value-in-use, rather than being embedded in predefined output,” a view that rejects the traditional models of the firm- and product-centric view of value. One of the key drivers of this change is the so-called “connected customer,” who increasingly expects tailor-made products and services based on individualized—and immediate—feedback. But today's connected customer is not just connected to individual firms; he or she is also increasingly connected with other customers through various social networks, an interconnection facilitated by advances in social media from wikis and blogs to Facebook and Twitter.

Hamel (2006) and Hamel and Breen (2007), recognizing this connectedness, contend that most management systems and principles are based on an obsolete management paradigm. In the old

\* Corresponding author. Tel.: +47 46410875.

E-mail address: [Jon-Arild.Johannessen@hih.no](mailto:Jon-Arild.Johannessen@hih.no) (J.-A. Johannessen).

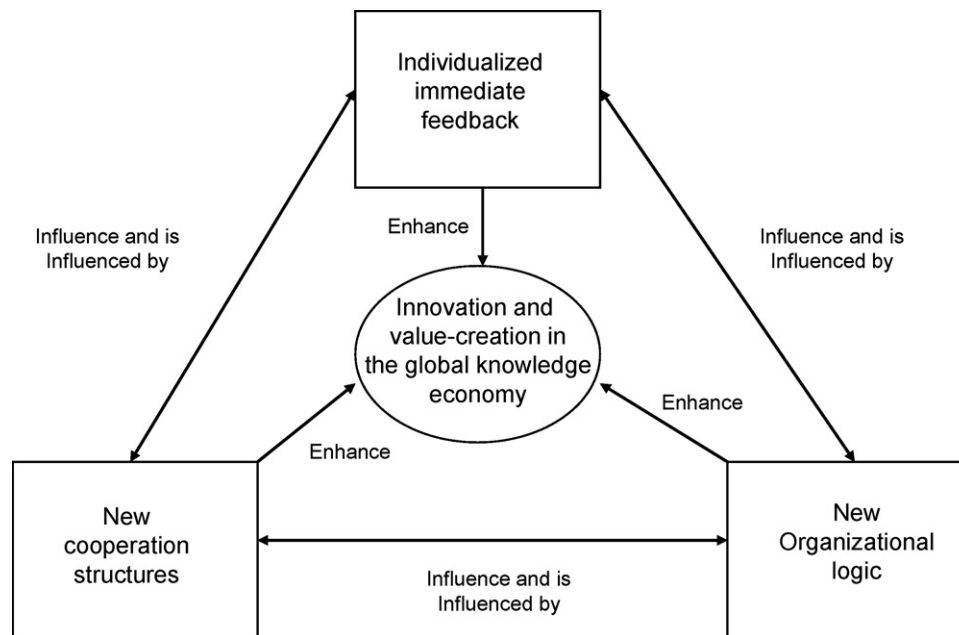


Fig. 1. Factors enhancing innovation and value creation in the global knowledge economy.

industrial economy, they say, it was possible to control and manage by means of hierarchical structures through rules, bureaucracy, and clear-cut functional areas. But the new knowledge economy, with its global information and communication structures, makes it hard to preserve this management and control mode (see Rogers, 1986), due to the growing complexity, turbulence, and ambiguity of the world marketplace (see Marion, 1999). Globalization, bringing with it increased individualism and an increased demand for swift feedback, combined with the enormous potential found within the wealth of new ICTs, will inevitably lead us, like it or not, toward a radically new organizational logic.

In the transition from an industrial economy to a global knowledge economy, we find that the growing importance of information, knowledge, and competence, in combination with all the revolutionary ICTs as well as a new questioning of competition as the main driver of innovation and value creation (Luo, 2007; Pfeffer & Sutton, 1999), opens up fresh avenues of cooperation on a global scale in the form of new cooperation structures.

To be able to create innovation and value within this new economic landscape, we need to rethink our established notions regarding both value creation and how innovation actually comes into being these days—in short, we need to change our recipes for success. But these recipes cannot be made in the old kitchen of the industrial economy. We have to consider how today's connected and interconnected customers, with their expectation of individualized feedback, together with radically new ways of organizing, not to mention equally new cooperation structures, may combine to enhance innovation and value creation in the global knowledge economy.

**Assumption 1.** External information, knowledge, and competence are the chief productive resources for innovation and value creation in the global knowledge economy

**Assumption 2.** Individualized immediate feedback, new ways of organizing, and new cooperation structures have become key social mechanisms for innovation and value creation in the global knowledge economy.

The question we will investigate here is: *What enhances innovation and value creation in the global knowledge economy?* Our aim is

to understand, and explain, the social mechanisms and the accompanying social processes influencing the development of our new economy.

We believe that individualized immediate feedback, a new organizational logic, and new cooperation structures are the mechanisms that initiate, sustain, and reinforce social-change processes, and that also enhance innovation and the value-creation process within the global knowledge economy. The relationship between these entities is depicted in Fig. 1.

Next, we will reflect upon value creation and innovation in a global knowledge economy, after which we will discuss the three chief factors enhancing them.

## 2. Value creation and innovation in the global knowledge economy

The term *value creation* is widely used both in academic literature and in the popular press. Priem (2007) argues, however, that too often that popular term has gotten confused with *value capture*, which he defines as “the appropriation and retention by the firm of payment made by customers in expectation of future value from consumption” (Priem, 2007: 220). *Value capture* implies focusing on getting the biggest possible cut of the pie, whereas *value creation* involves innovation that establishes or increases the consumer's valuation of the benefit of consumption (Priem, 2007). Value creation, then, implies increasing the size of the pie itself, not just a cut of the pie. Hence, while value capture is seen from the supply side, value creation is seen from the demand side.

The strategic-management literature, however, has actually focused more on value capture than on value creation. As a result, discussions seeking to explain sustainable competitive advantages have focused on the industrial organization (IO) theory, the resource-based view, and dynamic capabilities. IO theory focuses externally on the industry and product markets, and is based on the assumption that you can sustain competitive advantages by limiting entry forces. And you do that, it says, by creating entry barriers at the industry level—i.e., exercising monopoly power. Porter (1980: 4), for example, contended that “the strategic objective of the firm is to position itself in an industry where

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