A Brainovation® talk about Knowledge Economics with Professor Leif Edvinsson

By Anders Hemre, February 2016

Anders Hemre: Leif, it's great to have another opportunity to converse with you. It's been eight years since our last interview – a long time in today's world – so let's get right to it.
Japanese scientist and economy philosopher Dr. Hiroshi Tasaka once suggested that the knowledge economy is a misunderstanding – the argument being that knowledge is developing more into a free commodity than a priceworthy good. What is your take on this suggestion and – beyond research and education – where do you see the biggest returns on knowledge, if such a concept can be defined in economic terms?

Leif Edvinsson: Thank you for again letting me share my views. I don't think the knowledge economy as such is a misunderstanding. But I do think we need to increase our understanding of it. The knowledge economy is not just about knowledge and knowledge work. Most importantly it is about how and where value is created. And this has shifted.

As suggested by Professor Csaba Varga at the Institute of Strategic Research in Budapest we may even be moving into what he calls the "mind era" – an era increasingly characterized by intangible perspectives. Of course, industrial infrastructure, transportation, energy production and so forth are still required and knowledge has always been an important factor in economic activity. But the point is that such activity has changed. The role of small firms, networks and collaborations has increased significantly. Manpower is no longer the dominant enterprise performance factor. Mindpower is. Just look at the big internet names and e.g. the Swedish gaming industry.

Breakthrough innovation is where great returns on knowledge should be expected. This may involve not only entirely new discoveries, but also novel applications of technology. A good example of this is bioelectronic medicine and electroceuticals – the use of microelectronic waves to replace pharmaceuticals. This is being researched at the Feinstein Institute in New York in collaboration with the Center for Molecular Medicine at the Karolinska Institute in Stockholm.
And beyond economic returns, it's easy to recognize also the human benefit from advances in life science.
By and large, it's difficult to see any innovation with a significant impact, where knowledge has not played a key role.

AH: Indeed. But what about knowledge work itself? It has been argued that the biggest management challenge of the 21st century is to increase the productivity of knowledge work. Is this happening and how would we know?

LE: It is probably happening, but accounting for the productivity of knowledge work is not particularly easy. Knowledge work is more about outcomes and impacts than it is about output. Even though individuals can be more or less effective at work, on enterprise level it's always the combined effort of many that creates the result. So it's a lot about the performance of teams, networks and communities and how people collaborate and share knowledge. In general, we know how it works, we just need to get better at measuring and managing intangibles.

AH: Gross Domestic Product (GDP) has been used for a long time as the key measure of national economic performance. Is GDP still a relevant performance measure considering how value is created in today's economy?

LE: Of course GDP might still be a relevant measure. But GDP numbers are what they are and they don't take knowledge into account. That's why there is also a need to address a nation's intangible assets or NIC, National Intellectual Capital.
We can now see larger knowledge entities being subject to thinking and planning. Smart Cities is an obvious example of this. It is also possible – and in my opinion necessary – to account for National Intellectual Capital. This has been done early in Asian countries like Japan, Korea and Taiwan – all with strong national identities and agendas. Clearly, the wealth of nations increasingly comes from their intellectual capital. There are countries in which 70% of their GDP depends on Intellectual Capital.
I have worked with this for many years. It's still in progress with NIC data now available for around 60 countries.
You can find information about this at National Intellectual Capital as well as on the new web www.bimac.fi

And this article in the Journal of Intellectual Capital summarizes 21 years of work: Reflections from 21 years of IC practice and theory

AH: Innovation is often hailed as the premium way for firms, industries and even nations to stay competitive. In comparative studies of national innovation performance, Sweden consistently rates high. Do you find Sweden's national innovation system and associated government policies particularly effective and how would they compare with those of other developed or rapidly developing nations?

LE: I don't think Sweden's innovation system is particularly better or worse than those you find in most comparable nations. Sweden is a small country allowing policies to have both reach and impact. But we can do better. There also needs to be a capacity for renewal. Since quite a few years back, the Finnish Parliament e.g. has a Committee for the Future with the mission to generate dialogue with the government on major future problems and opportunities. The Aalto Camp for Societal Innovation (ACSI) is another initiative with international reach. See also its impact on innovative urban planning, www.espooinnovationgarden.fi/en.
Overall, there is a growing need to think about quite fundamental issues such as the nature of work and the organization of socioeconomic systems. Innovation "boot camps" for politicians is not a bad idea.

Sweden needs a more deliberate and engaged debate about change and renewal in society. Fifty years ago the establishment of a Research Policy Institute at the Lund University was groundbreaking. With the complexities and challenges of today's society, it's important that such research continues and has a real impact on policy making.
The recently established National Innovation Council and the expressed preference for innovative solutions in publicly funded projects at least indicate that the need for effective innovation policies is being recognized by those responsible.

AH: OK, but are Swedish policies not often derivatives of EU policies or dependent on EU rules and regulations? Overall, has the innovation performance of European nations benefited from the EU?

LE: It's a bit of a mixed picture. When the EU was initially formed, it was in fact in itself a regional societal innovation representing peace, stability and cooperation. Innovation is of course promoted by the European Commission and there is plenty of money dedicated, but there are also

plenty of rules and regulations to deal with for those trying to develop their ideas. Innovators both in Europe and elsewhere seek high value opportunities and many aspire to build globally competitive businesses. European innovators need all the help they can get. And certainly no bureaucratic choke collars.

Societies evolve, but legacy also weighs heavy. There are growing incongruities in several areas. It's in the gaps where you can often find the most fertile ground for innovation. And the higher the risk, the higher the potential return.
Both the young and the old are known to be higher risk takers than others. Why not recognize this and find deliberate ways to combine the energy of the young, the experience of the older and the willingness to take risk of both. Maybe there is a case for mid-career temporary retirements. At least we should be seriously thinking about these things.
Gary Hamel talked about rule takers, rule makers and rule breakers. The takers and the makers usually don't rock the boat. It's the rule breakers who need a break!

AH: I agree. Thank you for sharing your thoughts.

Lund University Professor Emeritus Leif Edvinsson is known for his groundbreaking work on Intellectual Capital. He was recognized Brain of the Year 1998 by the Brain Trust foundation, listed in The World´s 50 Most Influential Thinkers 2006 and received the 2013 Luminary Award for Innovation Thought Leadership by the Peter Drucker Foundation, Intel and the European Commission.
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