

Business Model Evolution in IA / IC Support Centres and the Role of Market-Making

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Abstract: This paper addresses some of the issues for 'migrating' the 'business model of IA / IC support centres depending upon the developing nature of their roles over time. It explores how centres may be sustained over a sufficient period of time to impact economically at a local, regional or national level. In state or project-funded centres it is sometimes difficult to maintain levels of funding over a sustained period of time due to the 'project' nature of many funding schemes. Indeed many of the initiatives in this field globally over the last 10-15 years have been noticeably transient. As a consequence the assets which might be created are not adequately transferred to more long-lasting bodies which might be able to exploit them further. To strategically manage a centre often means looking for business models which can sustain the work of the centre over a period of time longer than projects (in excess of five years) to create economic impacts. The paper therefore particularly reflects upon the role of such centres in market-making (or maybe more accurately market-proving) should such a role be envisaged for it. The rationale which may lead to the need to explore the making or proving of a market in IA / IC support is reviewed as well as the drivers for strategy adjustment which may lead to role changes for support centres. Roles which might bear market return as against those which are unlikely to have commercial returns are examined in the paper. The barriers to making changes in the business model are explored as well as the potential benefits for the users of such centres as well as their funders. The exit routes for the public sector are reviewed. The paper should assist in helping other centres with similar issues. The paper suggests further areas of research for scholars to help illuminate some of the issues which are highlighted in the paper.

Keywords: commercialisation; market-making; intangibles; intellectual assets; intellectual capital; business models

1. Introduction

This paper surfaces some potential issues regarding the role of particularly publicly-funded IC Centres. The author draws on his experiences working within the Scottish IA Centre (which are expressed as the author's personal views and are thus perceptual). These lead onto an exposition of the key learning points which might derive from an analysis of those issues and experiences. Finally there are some concluding thoughts as well as some areas for potential research exploration by scholars in the future.

It is to be emphasised that the reflections of the author offered in this paper are not to be taken as the evaluations of the company which runs the Scottish IA Centre (Scottish Intellectual Asset Management Limited) or its funder (the Scottish Government) or its' members (Scottish Enterprise and Highlands and Islands Enterprise). It is to be recognised that the author thus writes as a person skilled and embedded in the field however not impartial or necessarily objective. The research perspective may be typified therefore to be qualitative and maybe loosely phenomenological in approach.

Natanson (1973) describes George Herbert Mead's (1934) outlook (which it could be argued has lead to a phenomenological methodology) as having three major directions:

- 'the attempt to explore and describe experience within society, treating consciousness, language, communication, and meaning as emergents from the social process'
- 'the re-approach to the same phenomena in terms of subjectivity, treating the given in experience as arising epistemologically and experientially within what Mead terms "the Act"'
- "the attempt to describe what is given in experience by means of a radical theory of temporality, which takes the present as the locus of reality".

The reason for describing the approach to be "loosely phenomenological" is that the analysis here does not dwell too much on the essences of the experiences and clarifying the relationships between them but does take a perspective on such essences. The paper is much more descriptive of the

experiences and the analysis of what researchers might learn from them, as opposed to deconstructing those experiences.

The potential value of this paper is possibly two-fold:

- For research into better and more effective public policy interventions for instruments to assist in the introduction of knowledge economy measures in the developing and less-developed nations
- For the guidance of those who may be tasked with the establishment of IC Centres in the future

2. The potential roles for IC Centres

There are a number of potential roles for IC Centres which include:

- Demand developer
- Sign-poster and Information Source
- Diagnostic Service Deliverer
- Product developer and / or deliverer
- Stimulator of Private and Public Sector delivery
- Policy adviser
- Learning & development deliverers in IC management
- Research centres

Where IC Centres are funded partially or wholly through public sector support the focus for that Centre must be driven by the focus of the particular country. Figure 1 below shows the focus for the Scottish Intellectual Assets Centre

Country Support is driven by Country Focus The type of IC Centre created must match the need

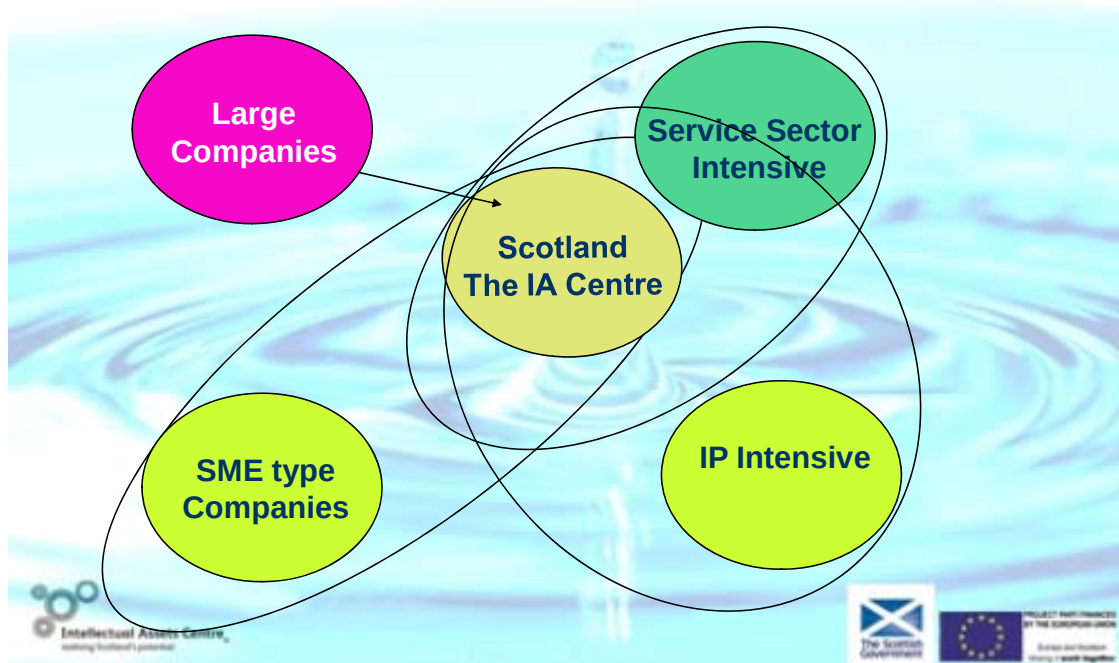


Figure 1: Type of Centre depends upon country focus

In Scotland the IA Centre has a focus on SMEs, many of these operating in the service sector but not being exclusive to that sector; many have registerable intangibles in the form of intellectual property. Whilst large companies are not the focus for the Scottish IA Centre there is still an interaction with them as they can often influence the behaviour of the SMEs through supply chains and procurement.

One of the potential roles for an IC Centre which was not outlined at 2.1 above is in attempting to intervene in market-making. Where there is very little market activity in terms of enterprises commissioning IC management interventions an IC centre might help to develop demand and encourage private sector suppliers to place offerings into the market. One of the issues which arises when this role is pursued, especially when the IC Centre is partially or fully funded from the public purse, is the degree to which the IC Centre itself should be a player in the market.

Winning support for public funding is a challenging task particularly as the concepts which lay behind IC are often, by the nature of the language and terminology used, difficult to simplify. Maintaining that funding over the period of time needed to be influential in bringing quite fundamental change in the target market is perhaps even more challenging. When the market failure is severe and the private sector slow to develop the IC Centre might contemplate not just market-making but being an active participant in the market. Some of the issues which this gives rise to form one of the subjects for this paper. I would venture that one of the questions to which those governing an IC Centre turn is the balance between the Centre being a market-maker versus being a market participant. Strategically this is a question which those individuals need to accommodate and plan for.

3. Strategic issues in developing effective IC Centres

One of the principal issues for any macro-economic IC intervention is the period over which the funding will exist. Many public sector funding initiatives in IC have resulted in excellent research and guidance for companies to implement IC. Examples have been the Danish guidance (Mouritsen, J. et al 2003 a), PIP-Putting IC into Practice (2004 version 2), RICARDIS (June 2006), PRISM (Zambon, 2003), the Japanese IAbM (METI 2005), and Wissensbilanz (Alwert, K. Bornemann, M and Kivikas, M 2004). The difficult part is to make such projects (with defined funding periods) sustainable in the longer term. Most practitioners now believe that for fundamental changes in behaviour in the area of IC management there needs to be a fairly lengthy period of intervention. Relatively short-term funding (say 3 years or less) may result in very little sustainable economic impacts.

Thus if the public sector intends to run short-term programmes (or believes there is a significant risk that funding will only last 3-5 years say) its expectations of such programmes should be fairly modest. For instance the making available of guidance in ICM, the generation of case studies, the licensing of some development programmes, the creation of a web resource or database.

Medium-term or longer-term interventions are more likely to have desired economic impacts. An example in Scotland is the Intermediary Technology Institutes (ITIs) (website www.itiscotland.com). ITI Scotland Ltd. is a company set up in 2003 by Scottish Enterprise with the support of the Scottish Executive to drive Scotland's ambitious plans to identify and commercialise valuable technology-based intellectual assets across three global market sectors: digital media and communications; life sciences and energy. This was envisaged as a 10 year initiative commenced in 2003. Even when the intention is for a long term intervention there should be some notion of the possible public sector exit options and roughly an idea of what the indicators are that suggest exit should be contemplated or indeed whether the initiative is being successful.

The exit options for the public sector in any initiative vary from straight withdrawal of funding and closure, to a new form of organisation (such as a community enterprise or social enterprise) to some form of privatisation. For the latter to have any chance of success there needs to be assets to transfer and some indication that there is a market to serve. No one would appear to have transferred an IC Centre to the private sector from the public sector so there is no model on which to draw. If there is to be some demonstration of a market to serve there would need to be some history of trading and some value to be demonstrated in the intellectual assets of the Centre. It is this requirement where some significant issues start to surface for the publicly funded IC Centre.

The first significant issue is the fact that there would appear to be no market opportunities in some of the typical functions of an IC Centre as set out in 2.1 above. The fact that no market exists justifies the need for public funding for such a Centre in the first place. No amount of success for the IC Centre in these areas will create such a market. In respect to individual development work with enterprises, many countries now see the greatest growth potential and the greatest market failure for ICM among the small and medium-sized companies. Selling IC interventions unsubsidised into such businesses is extremely difficult. InCaS (www.incas-europe.org) is a new initiative which is one of

the few that has been designed with the small business in mind. The project has as one of its key elements the reporting of corporate value in intangible assets to customers, partners, investors and creditors. The project is still ongoing but the fact that it is aimed at small companies in encouraging Another significant issue for the 'trading' IC Centre is the degree to which it might be seen to be displacing suppliers for whom it may be relying for other forms of support (e.g referrals, sponsorship etc). If it is not displacing the private sector then it may be accused of using an unfair advantage (public funds) to take away market opportunities for the private sector. Conversely an IC Centre which does not itself exploit its own IC is not acting upon its own advocacy. An IC Centre should be an exemplar of the kind of organisation it exhorts its users to be.

Negotiating the correct path between performing a public service, offering subsidised services and fully-costed commercial offerings without displacement or breaching fair competition rules is like navigating between the Scylla and the Charibdys. However this is exactly what a forward-looking IC Centre should be planning for. It should have in mind what will continue to be a fully-funded public service for enterprises in its geographical and / or possibly sectoral user group. However it is likely that this funding, if it is to be effective, needs to be carefully targeted. However even when targeted the universal free service usually results in fairly modest impacts as the market failure in the user groups is usually quite severe. To increase the potential for 'proving the concept' there needs to be a deeper level of intervention. It is at this point that public sector funds should be used to help lever other funds, preferably from the users themselves. To convince the user to share the risk of the intervention not bringing about a commercial benefit there needs to be a business case. For most commercial enterprises the business case would normally be monetary and it is here that there is a severe difficulty for ICM. ICM often cannot convert its effects into monetary values; indeed ICM has severe problems with 'valuation'. Changing the mind-set or values of entrepreneurs so that they can appreciate such problems often takes longer than the funded services can sustain.

IC Centres also need to think about what might be offered on a full-cost basis. Such Centres (whether they be termed IC, IA, Future Centres or whatever) should be pioneering not only in the offerings they have but the funding models they employ. This is one other high-wire act that IC Centres need to perform. Whilst offering very simple benefits and features in straight-forward language they need to experiment with the innovative and risky, which no other organisation has yet tried. Inevitably there will be risk and failure along the way. However their own practice of IC management, particularly if they have the option of longer-term thinking, can allow the emergence of a sustainable model. This may involve some hand-to-mouth measures during part of the life of the Centre as it cobbles together funding packages, with some modest private income, and a lot of reciprocation and 'piggy-backing' to keep the show on the road. This is indeed the territory of the social entrepreneur and maverick. A mixed-funding business model for IC Centres is not just an option, it is probably a necessary condition for a vehicle of sustainable value to an economy.

What does the term risk-sharing really mean in the context of an IC Centre? In a very practical way the risks which are being shared are the following. From the public sector's perspective the risk is that its investment is 'deadweight' i.e there is no additionality from the investment – the enterprise would have performed or not performed in exactly the same way with or without the intervention. In the Scottish IA Centre the deadweight factor is about 23% of those interventions where data has been collected (which is regarded as statistically significant). From the users' perspective the risk is that the intervention is not effective or costs more than it generates in new business, costs-savings, risk reduction or value enhancement. What would happen in such a model is that the public sector would offer to stand most of the risk in the initial stage (say in identifying the potential benefits which the user might accrue from an intervention). The user would only risk wasting some time in providing information as an input to that intervention. The second stage is the offer of a menu of supported interventions which might have different potential effects (i.e risk-reduction, communication of value in intangibles, review of new exploitation routes) where there is an investment by the user as well as the IC Centre.

Could an IC Centre fully cover its costs from the market from the outset in today's economic climate and what would it have to do to achieve this? This may be possible if the offerings consist of one or a mix of the following:

- User-generated content
- Legal advice on intellectual properties and the exploitation of the same

- Valuation of intangibles
- Recovery of intangible value
- Brand consultancy
- IP and /or licensing consultancy

I would be extremely doubtful that straightforward IC consultancy advice alone would be able to cover its costs to sustain a private sector IC Centre in its early stages.

An issue which dominated a lot of the early thinking about the rationale for IC interventions revolved around the perceptions of asymmetrical information flows. Does this issue still hold so much sway and if so with whom? The continuing interest in Intellectual Capital Statements certainly suggests this interest is still there and that there is a need to address it. The accountancy perspective on IC would still appear to be influential (cf. the World IC Initiative –www.worldici.com)

The emphasis has moved however from influencing the accountancy profession and standards-setting to amend their long-standing rules relating to the treatment of intangibles to providing tools for more targeted communications. The use of new software innovation such as XBRL (extensible business reporting language) seems to offer the ability for such targeted and user-led pull information flows as opposed to the push information flow of Intellectual Capital Statements. This element of IC practice however takes a very long time to develop; it involves the large corporate sector more than SMEs and there is very little proof that this will affect SME practice. The issue of valuation is one that SMEs are interested in however there are very few solutions for them. There is a significant scepticism among the corporate community about IA valuation due to the fear that they will be asked to put IA on the balance sheet and thereby incur tax liabilities. However whilst ever the issue of IA valuation is ducked there will be a reluctance to grasp the importance of managing IA by small business.

4. Experiences

Having identified the kinds of issues regarding the role of IC Centres I will now relate some of the experiences which may help navigate an appropriate path for future IC Centres. Public sector interventions into enterprises which have proved the most durable and sustainable have also shown to be the most effective. To have sufficient impacts on the economy the intervention has to be sustainable over an extended period of time and command support from the civil administration as well as political support. The profile for the intervention has to be good however it has to be subtle and not been seen to be an extravagance or irrelevant.

Risk-sharing models seem able to be effective where the business case for further investment is made during the initial diagnostic phase. Given the degree of market failure, particularly in the key areas of awareness and understanding of what ICM entails (IA Centre Research 2004 and 2006), the initial diagnostic phase for publicly funded IC Centres would normally be free of charge to enterprises. The risk thus at this stage is being entirely borne by the public. To gain sufficient buy-in from the private-sector user to pay for further intervention requires a good understanding of what the cost-benefit equation looks like. Whilst normally in a business case the metrics on both sides of the cost: benefits equation are the same to enable pay-back to be calculated this may be far more difficult to create for IC interventions. The impetus to engage in the next and more involved stage is likely to be related to more complex motives. An experience of the risk-sharing model in the UK is SMAS, the Scottish Manufacturing Advisory Service (www.scottish-enterprise.com/manufacturing) which offers a one day free manufacturing review to manufacturing companies in Scotland free of charge with the offer of a further longer exercise which is partly subsidised for small to medium sized companies. The ratio of those taking up the more in-depth exercise to the number of first stage diagnostics is about 1:5 (data from SMAS at the Scottish IOD Conference 31st October 2009).

The experience in Scotland is that the growth of service and product provision in the IA/IC field among suppliers has shown fairly slow growth. There has been growth in the traditional areas of IP services but IA service/product growth has been principally related to the stimulation provided by the existence of the IA Centre and other public service related initiatives.

A relatively untapped exploitation route for the Scottish IA Centre has been the ability to leverage private sector resources to bring new or greater capacity to the offering of the IC Centre. It may be

argued that the IC Centre has to build its own IA before it can successfully leverage such relationships with the private sector. The success of this exploitation route relies heavily on the excellence of the IC management by the Centre itself. However the principles of structuring solid and valued offers from the private sector to users with the IC Centre acting as broker and looking at reciprocation for the private-sector suppliers represent significant value. Examples of the kinds of services which may be offered include pro-bono legal advice, free seminars and workshops, free Trademark searches, pro-bono accountancy advice, pro-bono branding advice. Issues which must be overcome include the extent to which such relationships between the IC Centre and private sector suppliers threaten the 'honest broker' role of the IC Centre, particularly when that Centre is funded by the public purse.

Once the IC Centre becomes skilled in exploiting its relationships it can possibly reduce its cost significantly without a marked diminution of its overall offering. Combined with some commercially paid-for services it might be possible to envisage the Centre continuing with a substantial service offering with a much reduced public subsidy. However at this stage the total removal of public subsidy would probably result in the demise of the Centre. There may be an irreducible minimum based upon the conventional model for funding such Centres, as they rely on an experienced and knowledgeable staff to be able to coordinate and quality assure its activities.

5. Learning points

There are six principal learning points which I might venture based upon an analysis of the issues and an exposition of the experiences. The first is to consider a phased development of the IC Centre with defined milestones to allow for a gradual transition from fully funded to mixed models of funding. Allow for an IC-building phase for the Centre itself with a defined exploitation strategy which could kick in at a defined milestone.

I would commend making it clear to early users that they will gain significantly from early engagement as they will access services which at a certain point may be charged for. Consideration about whether early users would be allowed to gain from guaranteed discounted services after others are charged should be given. This may depend upon whether the Centre wishes to retain long-term users or attract new users?

The Centre should focus on what will continue to be free of charge services and to whom these will be available, what may be accessed after time which may be provided by the private sector perhaps at discounted or preferential rates and what may be provided by the IC Centre on a risk-sharing basis. Thereafter what might be the areas of high-risk innovation which the IC Centre could explore in the expectation that a proportion of such projects will fail.

Experience suggests that high impact for users means high intervention which does not equate with affordability for small firms (who constitute the users experiencing the greatest market failure). Those services which may be subject to risk-sharing will probably have to display the following features:

- Be easy to explain
- Have recognizable impacts
- Might qualify for public sector support through existing programmes
- Are targeted at particular 'hot' sectors
- Are designed to be delivered by the private sector after the concept has been proved to be effective by the IC Centre with merchandising and case studies made available for private sector suppliers.

IC Centres should design tools not just for users of IC Management but for the suppliers of IC management advice to apply and make these available at an early stage. Additionally whilst the creation of a number of tools might be laudable the IC Centre should recognise that a proportion will not be effective and need to be dropped. The IC Centre should continue to sustain and develop a relatively small number of tools whilst continuing to create new ones for trial, based upon users' and suppliers' feedback.

IC Centres should be oriented around 'relevance' rather than 'commercialisation'. It is as important for the publicly funded IC Centre to make available information in an easily usable format for private

sector users. This requires awareness as well as a skill to be able to envisage how users outside of the Centre might wish to manipulate data.

6. Conclusions

It is difficult to determine what social changes might take place outside the existence of an IC Centre which could influence its development. For examples the rise of importance of service innovation to western economies, the loss of confidence in the worldwide financial services sector, professional practice development or the lack of it in certain areas (such as accountancy practice), global economics (the demise of manufacturing in the west and the rise of the BRIC economies). As a result I would suggest that there be some arrangement of “simultaneous loose-tight properties” in the design of the IC Centre. By this I mean that there are certain core properties of the IC Centre which should be managed very tightly and everyone should be aware of what these are, how they are to be measured and managed and people held to account. There should then be very loose accountability outside of those activities which allow the flexibility to adapt. The governance structures for the IC Centre should have the capability of distinguishing between those activities which are tight and which remain loose to be explored, experimented with, and innovated around. At certain intervals in the development of the IC Centre there should be a review of what will remain to be tight and what should now be included as tightly managed and what will remain loose, what might be dropped and what might be new areas of loose interest. The loose areas are ones where no metrics should be adopted (they should remain goal-free areas until such time that they are adopted for tight control). Only tight areas should have clear metrics and be closely managed.

There should be a phased development of the IC Centre with deliberate IC building and an exploitation strategy mapped out with expected timelines when such exploitation might be achieved.

Exploitation should not just be measured by commercial revenue-raising but should include the importance of relevance, leverage and the commercial value of that leverage.

7. Areas for further research

More research should be conducted into what converts ‘needs’ into ‘wants’ by small business as this may help IC Centres to start delivering the necessary offerings which will constitute a sustainable business model.

Additionally research might be valuable into what business cases can be constructed to review IC intervention opportunities and particularly new models which look to pay-it forward principles rather than pay-back methods. One could envisage a public-sector intervention which proposed on the basis of a pay-it-forward basis which hopefully does not just create or enhance in value an intellectual asset within an enterprise but also an intellectual liability which at some stage the public sector provider expects the enterprise to redeem by paying it forward to another beneficiary. Research into how such a methodology could work could well have interesting public policy impacts.

Finally another possibly rich area of research could be into those aspects of activity which IC Centres regard as being required to be managed ‘tightly’ and those to which they would ascribe very loose management.

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