
Generate More Value From Your External Knowledge Sourcing



By L. Felipe Monteiro , INSEAD Assistant Professor of Strategy

Are your scouts so busy looking outside for new knowledge they're not understanding what your company really needs?

To maintain a competitive advantage in a global economy it is increasingly important that multinational corporations (MNCs) have the ability to tap into new ideas and technologies beyond their boundaries.

There are a number of specific mechanisms for external knowledge sourcing. Some companies dive right in and acquire or invest in start-up firms, others form strategic alliances with competitors or hire talented individuals from leading companies. Over the last 30 years, many MNCs have begun forming boundary spanning units - setting up corporate venture divisions, business development offices or technology scouting units - employing people whose job it is to identify innovative ideas or technologies in targeted knowledge hotspots around the globe and bring them inside.

Often these innovation initiatives start by asking subsidiaries to go out and find new ideas that can be used by the firm; a relatively unsophisticated approach which can leave the company inundated with possibilities, but with

little understanding as to how (or even if) they will add any real value to the organisation.

Scouts may find they don't have the means to connect with external partners or internal managers and are blindly following requests from headquarters without knowing exactly what it is their organisation needs.

I have seen a lot of disappointments when multinationals attempt to source knowledge from a new country by hiring a local person who is completely disconnected from the internal realities of the firm. Similarly little value is gained when the role is filled by someone who is very connected to the company but doesn't have any connections in the target region.

Asking the right questions

To create maximum value for their company, scouts need to be as focused internally as they are externally, to understand what it is that different departments within their organisation are seeking to achieve and be able to identify how the new ideas and technologies to which they are exposed can help them achieve it.

Scouts (and their managers) need to realise that finding the answers means having the right contacts and asking the right questions. They need to work in an environment where they have the freedom to push back, to query headquarters' requests and say "No, that's not what you're after, what I think would really get this project going is this .."

The four processes of external sourcing

By studying the processes and capabilities of a large telecommunication services provider's Silicon Valley scouting unit over a seven year period, my recent research **How Do Firms Identify and Make Use of External Sources of Knowledge? A Boundary-Spanning Perspective**, with Julian Birkinshaw, Professor and Chair of Strategy and Entrepreneurship at *London Business School*, identified qualitative differences in the value scouts brought to the telco. We watched and assessed the contribution as scouts moved from being mere channels for passing on information to making significant contributions influencing company decisions and policy. The processes adopted by the unit changed as the scouts' internal and external knowledge expanded along with their networks and social capital.

The study identified four distinct processes scouts can develop over time, and which companies can nurture to add value to their global knowledge sourcing.

1 Channeling

Channeling is the initial process, generally adopted by firms when they start up an open innovation initiative. In this stage, the agent acts as a transmission channel, passing on information about people or new technologies without a precise idea of what it is the company really needs. There is no match-making between different parts of the company with external partners; scouts are there just to provide codified information.

2 Translating

As scouts gain a greater understanding of what the company is seeking they are able to translate, or reframe, the new ideas and technology they are seeing in a way the company understands. A lot of what the scout does in the translation process goes beyond the technical or language translation. For example, in Silicon Valley there was a lot of conversation about gamification – applying games to everything from business solutions to education. Executives back at the headquarters in Europe considered this a fad. It wasn't until the scouts were able to say, "Are you looking to develop very fast broadband? Well, this is what gamification is doing." They were able to make links between the knowledge coming out of the region and what the company was doing back at home.

3 Match-making

As scouts develop their networks and relationships both within the organisation and in the target region they are able to invest this social capital with both sides, identifying people who are able to add value to the firm and linking them up with the appropriate executive back home. They can set up meetings and convince both parties of the mutual advantage of working together.

This requires a whole new set of skills and is the difference between cognitive social capital and relational social capital.

4 Transforming

This fourth process is when the scout really comes to the fore and can create the most value for an organisation. Making strong use of the knowledge and social capital they have developed (both internally and externally) scouts are able to really push back, to have input into decisions by transforming the problem definition and offering advice to internal units. This requires the same filtering and framing activities used during the translating process and draws on the networks and skills used in match-making.

Unlike the three earlier processes, the transforming process entails a more sustained follow-up by scouts. In order to have both the ability to identify transforming opportunities and the credibility to be heard by business units, scouts working in this capacity need to have plenty of experience in the target region as well as strong relationships with managers in the business units they are transforming.

While these four processes are distinct, scouting unit managers need to know the right way to act in each situation. They need to know what process is being used and give the required backup and support.

No short cuts

To make a real difference to multinationals, scouts and managers have to realise just how much value can be found in external knowledge sourcing, and how to develop the processes to extract this knowledge. To create the greatest value, scouts must be embedded inside both the firm's internal network and the external network from which they seek to acquire knowledge.

There are no short cuts for scouts to gain this experience and social capital, it takes time and training to gain the understanding and trust necessary to be able to redefine the company's true needs and the ability to reframe opportunities so that companies can understand just where the true value lies.



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