

Intellectual Capital

American University of Science and Technology

Contemporary Management, MGT – 500, Fall 2006 – 2007

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I. Definition

By definition IC (Intellectual Capital), means the intangible capital or asset of a certain organization that is built out of the educational or knowledge level of its stakeholders, by stakeholders I mean each actor that has direct or indirect interference with the enterprise itself. I don't mean specifically by Education or knowledge the degree a certain person has attained rather than the experience and "the know how", acquired to date. Intellectual assets are intellectual materials that have been formalized, captured, and leveraged to produce higher value for the firm.

IC Management has its origin in Scandinavia, a culture where businesses traditionally have had a longer time horizon and an "engineering" bias with its high emphasis on R&D.

"The literal translation of "business" from Swedish to English is nourishment for life as opposed to the English word which originates in "busy-ness!"". (Madanmohan R., 2004)

In England, where the tradition of business is in transaction thinking and shorter time horizons, IC Management thinking has been very slow to take root.

IC Management has taken root to a substantial extent in Korea, Japan, China, Taiwan, Singapore, Sweden, Norway, Denmark, Finland, Canada and Holland -- and to some extent in Austria, Australia, Spain, Italy and Israel, whereas the rest of the world is still observing it, as a rule.

II. Directions & Trends

IC is noticed in three main directions, each to be used in its specific area:

1. The Academic direction: Academic grounding has been made in the field of IC where it is linked to other existing bodies of knowledge.
2. The Managerial direction: IC is becoming easier to use with higher precision for assisting managers to improve the effectiveness and efficiency with which they structure and extract value from the intangibles at their disposal.
3. The Regulatory direction: or what is known as legal permissions and regulations, IC here directs or provide enterprises with better auditable tools for disclosing intangibles in a way that complements existing financial accounts and that is acceptable to the accounting and legal profession.

Trends of IC are fairly obvious. They are linked to the strategic logic of the firm and therefore to the type of resources and transformations that are fundamental for the value creation of the enterprise, I will list some examples in the applications of IC.

III. Techniques

Intellectual capital practices had been filtered, transformed and modified with generations:

1. IC was first analyzed through scorecards like Skandia.
2. IC indexes appeared then as a second generation, where it focuses on resources as well as transformations.
3. HVA approach or holistic value added where all important parts of the study are taken as one entity without disassembling them for a better value.

IC techniques: (Montague Institute, 1997)

1. *Relative value. Scandia*
2. *Balanced scorecard*
3. *Competency models*
4. *Subsystem performance*
5. *Benchmarking*
6. *Business worth.*
7. *Business process auditing.*
8. *"Knowledge bank."*
9. *Brand equity valuation.*
10. *"Calculated intangible value."*
11. *Micro lending.*
12. *"Colorized" reporting.*

IV. Application (Case example)

IC Management is more rapidly accepted in areas which have a longer time horizon and a higher focus on intangibles as a basis for business, that is why it is clearly to notice it in regions such as the ones stated in the definition.

Examples of other applications categorized by fields and areas:

- In pharmaceuticals: IC is about increasing the effectiveness and efficiency of R&D
- In retail: IC is about increasing the effectiveness and efficiency of relational resources and organisational resources as long as competence.
- In manufacturing: IC is about tangible resources so it's management adds relatively little in standardised sub-contracting manufacturing.
- In telecom: on the operator side, IC is about understanding the consequences of being a value network and deploying relational and organisational resources within this framework.

Success cases shown through:

- *The turnaround of the Swedish Defense Research Establishment from a loss-making and low-performing agency to a profitable high-performing agency(a benchmark for others). Director General Bengt Anderberg, the CEO, used IC Management throughout this change process.* (Madanmohan Rao, 2004)
- *The dramatic increase in value that allowed Apion to double the value of the part of the firm that was divested. The CEO used IC Management to achieve this result over a period of six months.* (Madanmohan Rao, 2004)

V. Benefits for making use of Intellectual Capital

IC Management has many beneficial opportunities, as can be testified by the firms that have deployed it in a professional way. Benefits differ depending on the size of the corporation whether if it was large or small.

- IC Management allows for the explicit identification of the effectiveness by which any organisation have deployed is intangible and tangible resources, and the improvements that can be done given the strategic logic of the firm as well as its size.
- IC Management further allows for the tracking and improvement of the efficiency by which actual value is being extracted from this, by now, effective deployment system.
- IC Management allows for the understanding of sources of coordination costs that can consequently be reduced.
- IC Management allows for an understanding of which intangible attributes are drivers of value in the eyes of different stakeholders and therefore which attribute should be focused on to generate more value in the eyes of these stakeholders.
- IC Management allows for identification of suitable disclosure structures to minimise uncertainty in the eyes of investors without reducing or risking the existing competitive advantages.
- IC Management allows for the valuation in a transparent and assurable way of any intangible, or set of intangibles, up to a whole firm structure.

VI. Errors using IC techniques

Disadvantages and errors are mainly noticed when using IC techniques in a wrong way such as:

1. Focusing on the presence of resources ("how much of something do we have?") rather than the transformation of resources ("what are we using what we have for and how well are we extracting value from this use?"). This is one of the traps inherent in the traditional balanced scorecard approach.
2. To employ tools and techniques that do not ensure that the items identified are complete (i.e. tools that miss something important to the firm) and preference independent (i.e. tools that uses attributes that impact each other or overlap). Falling into this trap means that the outcome is unreliable and does not have any predictive power.
3. To assume that everybody values the same thing. This is most obvious when management assumes that investors share their view on what should be done to improve the firm's value. An insightful approach here makes it possible for management to balance the need to communicate (by persuading investors to change their view) with the need to perform (giving investors what they want).

VII. Point of View

What is till now misunderstood, neglected or even unknown to our dear country is that, in the global knowledge economy, the value of corporations is directly related to their knowledge and intellectual capital. Broadening the perspective a bit wider and we begin to see the possibilities: Think of cities, regions, even entire nations, in addition to the public sector. If intangibles and intellectual capital are important to the private sector, they will also be important to the productivity and competitiveness of the public sector, and so to communities and nations as a whole.

The IC field is one of the few fields that is agnostic as to the output of on organisation. It is therefore extraordinarily suitable for use in not-for-profit organisations, public sector organisations, and so on. I can see a whole stream of new thinking emerging in this direction, IC Management is the most suitable approach to address effectiveness and efficiency issues within organizations in the public sector that are not involved in generating money.

VIII. References

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