INTELLECTUAL CAPITAL AND INTELLECTUAL PROPERTY

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Intellectual Capital in the Modern Organisation

In today's knowledge economy, it is critical for managers to be capable of identifying intellectual capital and knowing how to maximise its value to the business. This issue introduces the topic of intellectual capital and contends that as a potentially valuable commodity it requires the same protections as any other company asset.

What is Intellectual Capital?

Intellectual capital is the intellectual material - knowledge, information, intellectual property and experience - that can be put to use to create wealth. The dotcom boom provides a simple metaphor of the power intellectual capital can have on a market. At its height, the market capitalisation of yahoo.com far exceeded its balance sheet. Nike - the shoemaker that made no shoes - provides further example that once harnessed, intellectual capital can become a core asset of business.

There are Three Components of Intellectual Capital:

Intellectual capital = human capital + structural capital + relationship capital.

Human capital is the talent base of employees, while structural capital comprises non-human forms of property such as patents, trademarks, software databases, and an organisational structure that can be owned and traded. Relationship capital includes the knowledge embedded in business networks, such as customer relationships.

The knowledge that is caught in intellectual capital is quite broad, and goes beyond scientific knowledge to include news, advice, entertainment, communication and services.

Why Should We Protect Our Intellectual Assets?

Intellectual capital is mostly unrecorded on the balance sheet, and is often thought to reflect the difference between shareholder valuations and official financial reports. Its value helps determine selling prices, appraise acquisition opportunities and negotiate merger terms, or determine royalties in licensing and joint venture arrangements. Like any asset it requires prudent management.

Why Should We Value Our Intellectual Assets?

An audit of a company's intellectual capital will provide strategic assistance to management. It will also assist to determine whether it is more cost effective to develop knowledge internally or obtain it via acquisition or a license-in agreement. Further decisions can be made in regard to whether knowledge assets should be exploited by the company directly, or licensed out for others to exploit, and such information allows management to determine whether assets are being well-managed based on the rate of return generated by the knowledge asset.
How Can We Protect Our Intellectual Assets?

Intellectual Assets can be protected by various legal and technological means - both will be important to your organisation. Legally, business can retain control of intellectual assets in employee and contractor agreements, ensure they register intellectual property such as patents and trademarks in a proper and timely manner, and enforce their protection by pursuing those who breach their intellectual property rights. Technically, good information security policies and practices help protect confidential information from unauthorised access. For example, these processes may include destroying all electronic and hard copy information that contain confidential information rather than throwing it in the rubbish bin. A secure computer network is critical to protect confidential data from intruders and snoopers.

What Do Businesses Think So Far?

In a 1998 study on the management of intellectual property capital conducted by Arthur Anderson, about three quarters of the respondents (368 companies from a pool of 2,350 - 15% response rate) already tracked two or more non-financial metrics, and most agreed that knowledge measurement would improve organisational performance. The majority believe that reporting of intellectual capital would increase, while roughly half believed the process of measuring intellectual capital was as important as the information received from the measures. Similar results have been found in other research.

As a strategic performance measure, intellectual capital can assist in providing a clearer view of the fundamentals underpinning a business. The difficulty arises when intangibles are sought to be measured by tangible means. Currently the measuring of knowledge assets is in the developmental stage, with a range of solutions being promoted.