Intellectual capital

This report has the following objectives: Defining the intellectual capital; exploring how to change the tacit knowledge into intellectual knowledge; suggesting how to turn intellectual capital into revenue; highlighting the intellectual management in enterprises. With increasing emphasis on that intellectual property is the greatest asset, this report also investigates the ways to protect intellectual capital in company.

Key words: intellectual capital; tacit knowledge; intellectual management

Introduction The most important assets companies own today are often not tangible goods, equipment, financial capital, or market share, but the intangibles: patents, the knowledge of workers, and the information about customers and channels and past experience that a company has in its institutional memory. (Thomas A. Stewart's)

1 Defining the intellectual capital

SEC Commissioner Wallman describes intellectual capital as assets currently valued at zero on the balance sheet, including items such as the following: Human brainpower Brand names Trademarks Assets booked at historical costs that have appreciated over time into something of much greater value. Annie Brooking (a consultant and author of Intellectual Capital: Core Asset for the Third Millennium Enterprise) defines intellectual capital as the " combined intangible assets which enable the company to function." In other words, she sees an enterprise as the sum of its tangible assets and its intellectual capital, as shown in the following formula: Enterprise = Tangible Assets + Intellectual Capital

Leif Edvinsson (Corporate Director of Intellectual Capital at the Swedish corporation Skandia and co-author of Intellectual Capital: Realizing Your Company's True Value by Finding its Hidden Brainpower) equates intellectual capital with the sum of human capital and structural capital (i. e., customer relationships, information technology networks and management: Intellectual Capital = Human Capital + Structural Capital

There is general agreement that intellectual capital comprises (Intellectual Capital: Tomorrow's Asset, Today's Challenge by Barry Brinker, CPA

* Human Capital * Structural Capital * Customer Capital

1. 1 Human Capital The capabilities of the company's employees necessary to provide solutions to customers, to innovate and to renew. In addition to individual capabilities, human capital includes the dynamics of an intelligent (learning) organization in a changing competitive environment, its creativity, and innovativeness.

In 1995, for example, the National Center on the Educational Quality of the Workforce (EQW) released a report about the relationship between education and productivity at more than 3, 100 U. S. workplaces. The findings showed that, on average, a 10-percent increase in the educational level of employees led to an 8. 6-percent gain in total productivity. By contrast, a 10-percent rise in the value of equipment (capital stock) increased productivity by only 3. 4 percent. These figures suggest that the marginal value of investing in people is about three times greater than that of investing in equipment!

1. 2 Structural Capital The infrastructure of human capital, including the organizational capabilities to meet market requirements. Infrastructure includes the quality and reach of information technology systems, company images, databases, organizational concept and documentation.

1. 3 Customer Capital The relationships with people with whom a company does business. Although this usually means clients and customers, it can also mean suppliers. It has also been referred to as relationship capital

1 How to measure the intellectual capital?

2. 1 Why measure intellectual capital?

Companies may want to measure intellectual capital for a variety of reasons. Jay Holman(2005) identified five main reasons. First, measuring intellectual capital can help an organization formulate business strategy. By identifying and developing its intellectual capital, an organization may gain a competitive advantage. Second, measuring intellectual capital may lead to the development of key performance indicators that will help evaluate the execution of strategy. Third, intellectual capital may be measured to assist in evaluating mergers and acquisitions, particularly to determine the prices paid by the acquiring firms. Fourth, using nonfinancial measures of intellectual capital can be linked to an organization’s incentive and compensation plan. A fifth reason is external: to communicate to external stakeholders what intellectual property the firm owns.

2. 2 Measuring intellectual capital

Lakshmi U. Tatikonda(2001) stated that Intellectual capital can be measured using a direct approach method or an indirect approach. Some popular models of direct measurements include (i)Sveiby's Intangible Asset Taxonomy, (ii) Kaplan and Norton Balanced Scorecard, (iii) Edvinson's Skandia Navigator, and (iv) European Federation Quality Management Model. Indirect methods include (i)market value method (also known as Tobin's q method), (ii)calculated intangible value method, (iii market capitalization method and (iv) direct intangible capitalization method. Measuring intellectual capital is time consuming and expensive. To optimize costs and benefits of measuring intellectual capital companies should carefully select what they want to measure. A carefully selected simple system is far better than measuring many easily available items. Measure only the items that are strategically important and help produce wealth.