

# Intellectual capital in theory and practice

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## Preface

This book is an attempt to further develop the view on how present day and future companies should develop measure and value their intellectual capital. So far it has not been possible to satisfactorily transform a company's hidden assets into economic terminology. For this reason it is high time that current economic valuation principles are matched with the requirements of intellectual capital. Value creation for intellectual capital does not follow the same rules as for financial capital, which demands a different type of knowledge. In our opinion, human capital, i.e. the staff and their competence, must form the basis for the intellectual capital. This means that an awareness of human behavior and its internal/external prerequisites becomes extremely important as a means by which the company values its intellectual capital. Companies must first of all understand how intellectual capital can and should be developed on a theoretical level and then put those ideas into practice. If this book can help contribute to such a development, then it has achieved its purpose.

Our different perspectives, the psychologist and the industrial development consultant, have been a fruitful breeding-ground for the ideas that we are presenting. Behavioral science meets economic and technical business experience. We met when we were both consultants in a renewal project and after a few months discussion we decided to sum up our experiences, conclusions and visions in the form of a book. We have had to do a lot of giving and taking but have both agreed that the book's contents and form would have looked different had we written it on our own. One might say that the total is greater than the sum of its parts.

The book is divided into three parts. We begin with a comprehensive description of the new demands that a company and its staff face in the transition from an economy based on industrialized society, to the economy of knowledge and competence based society.

This is followed by an exposition of man's psycho physiological requirements from an experience related and biological perspective. The development of the brain, our three brains, order and chaos, the importance of the first years of life in shaping the adult personality, our need for relationships as well as unconscious processes are described. We emphasize man's psycho physiological function because the way in which the human brain functions should be used as a model and serve as a guide line for how a company can manage its intellectual capital. Human behavior must be observed and managed according to its own merits. To put it bluntly one could say that psychology, and not economy, should be the guiding factor in the way that human capital is transformed into measurable economic terms.

Also the specific differences between human sciences and natural sciences are discussed. They represent separate viewpoints as to how reality should be interpreted, and should be merged in order to make it possible to value the intellectual capital. The central analogue-digital transformation and the transmission of staff competence to the company's structural and business capital, are also described and illustrated.

The final discussion in the first part of the book concerns downsizing and people's attitudes toward change. We have encountered these phenomena in our practical experience and seen how important it is that a company has the necessary awareness of how people function. A successful downsizing must have a humane tone in order to generate the expected financial profit. The staff's attitude to change is, and will continue to be, one of the most important success factors for the majority of companies in a new knowledge and competence based society.

In the second part of the book we state our definition of intellectual capital: human, structural and business capital and motivations as to why we recommend this division. The definitions are based on our practical experience and the theoretical frame of reference introduced in part one of this book. We call our basic model of reasoning the currency basket. Using it as a starting point, the three types of capital, "currencies", are defined. The section ends with a discussion on the types of valuing principles that might be appropriate when valuing intellectual capital.

Part three describes a plan of action for designing and implementing an integration process of human, structural and business capital. It is a theoretical model for organizational development, but based on our own experiences as consultants and operatives in the industry. It is built on knowledge of human behavior, quality awareness and experience in development projects. The plan of action emanates from the management's views on vision, business concepts and policies and consists of measurement, analysis, development and evaluation processes. The company's success factors, indicators and key figures are analyzed cyclically and adjusted with respect to the "exchange rate" between the three "currencies". This integration process is inherently a measurement tool and has the same goals as a quality system, i.e. constant improvement. Therefore, it is a never-ending process, which means that parts of the process are repeated in order to continually develop the organization.

Hopefully in the future it will be possible to value both financial and non-financial capital in a way that reflects the real value of a company. We are not there yet but through interdisciplinary efforts and cross genre knowledge development, chances are the process can advance. We are convinced that it must be a collaborative effort, with team players rather than Lone Rangers.

This book addresses a wide audience, which has resulted in an attempt by the authors to explain sometimes complicated issues as simply as possible, without losing the intended meaning. Therefore, should our explanations not bring clarity to the subject at hand, or obscure them even more, we must accept full responsibility.