Chapter 5

Intellectual Capital Measurement and Reporting: Issues and Challenges for Multinational Organizations

Suresh Cuganesan  
Swinburne University of Technology, Australia

Richard Petty  
Macquarie University, Australia

ABSTRACT

Multinational organizations operate across a variety of complex competitive environments. Achieving the right balance of global alignment and local flexibility is central to competitive success for these organizations. Viewed from an intellectual capital perspective, multinational organizations need to: design and execute appropriate structures and systems (structural capital); engage and align its international workforce (human capital); and, generate favourable relationships across the multitude of stakeholders it interacts with globally (relational capital). But in pursuing these goals, a number of issues and challenges are faced: How to make sense of intellectual capital investment decisions? How are they to communicate intellectual capital priorities throughout the multinational business? And, with what tools are they to measure and monitor investments and initiatives such that refinements and corrective action can be made? In dealing with these issues, intellectual capital measurement and reporting practices can help. This chapter presents the conceptual framework underpinning intellectual capital, discusses limitations with traditional financial reporting models, outlines the benefits of intellectual measurement, and reports and presents research on the perspective of finance professionals evaluating global companies.

BACKGROUND

Multinational organizations operate across a variety of complex competitive environments. Achieving the right balance of global alignment and local flexibility is central to competitive success for these organizations. In operating across a multitude of varying institutional, regulatory, cultural and business contexts, multinational organizations face...
a number of challenges. These challenges have been identified as including:

- Operating a business model that services different international markets with diverse needs, with a distributed organization that has no ‘home country’ bias and which integrates various cultures (Fallah and Lechler, 2008).
- Managing different language, culture, politics, government regulations, management style and labour skills (Sheu et al., 2004).
- Balancing tensions such as global versus local and face-to-face versus electronically-mediated communication (von Zedwitz et al, 2004).

Fink and Holden (2005) observe the importance of global knowledge transfers as a means of competition for international organizations and note the following difficulties faced in effecting these:

- International knowledge transfer systems typically meet resistance by local managers.
- Organizational personnel in remote locations do not participate in global knowledge management transfers unless central management show respect and appreciation for local customs and cultures.
- The need for local participants to unlearn practices and skills that are not consistent with the common set of practices that the organization wishes to adopt.

Responding to such challenges requires investments. Investment is needed to create appropriate organizational structures and systems that ensure the recognition of important local business unit differences and their alignment to a global firm profile. Firms also need to invest in developing an engaged workforce that is geographically distributed and which operates with diverse norms and values. Finally, international organizations need to expend time and effort in building relationships with local stakeholders and authorities. Global organizations are thus confronted by difficult questions: How to make sense of these investments decisions? How can they communicate these priorities throughout the multinational business? And, with what tools are they to measure and monitor investments and initiatives such that refinements and corrective action should be made?

This chapter argues that the management challenges and investment decisions faced by international organizations as outlined above can be usefully conceptualised through Intellectual Capital (IC) frameworks. Indeed, IC and intangible assets frameworks and concepts have already been used to investigate the factors and resources that influence internationalisation of professional services firms, examining relational and human capital in particular (Hitt et al., 2006). The use of corporate citizenship by international organizations as a means of overcoming national barriers and outperforming local competitors has also been studied using an IC calculus (Gardberg and Fombrun, 2006).

Furthermore, this chapter contends that international organizations should consider measurement and reporting frameworks that are different from traditional financial reporting. Traditional financial reporting systems often provide an incomplete picture of a firm’s IC. The remainder of this chapter discusses the benefits that IC measurement and reporting can offer, and the role and challenges that organizations face in implementing such practices. Throughout the chapter, the theory that underpins IC measurement and reporting is discussed, and research evidence and examples from practice are presented and analysed.

The chapter’s objectives are as follows:

1. To present research on the perspective of finance professionals evaluating global companies.