Chapter XVIII

Time Capital and Intangible Accounting: New Approaches to Intellectual Capital

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“Because knowledge has become the single most important factor of production, managing intellectual assets has become the single most important task of business,” states Thomas Stewart in his ground-breaking book *Intellectual Capital – The New Wealth of Organizations* (Doubleday, 1997). As intellectual assets are the most important assets within any business, they must be measured and managed according to the most objective means possible.

The development of *Intangible Accounting and Time Capital* represents a step in the direction of objective (strategy-independent) intellectual capital reporting where intangibles can be identified, managed and measured just as traditional assets are identified, measured and managed. The diagram below illustrates the relationships between various generations of intellectual capital measures.

*Figure 1. The Three Generations of Intellectual Capital Measure*

![Diagram of Intellectual Capital Measurement]


This chapter will explore third generation intellectual capital measures. Two technologies, iValuing and Intangible Accounting, are required to implement third generation intellectual capital measurement and management.

The purpose of third generation intellectual capital reporting is to provide a standardized way to measure and manage intangibles within corporations. Intangibles include intangible assets, intangible liabilities, intangible revenue, intangible expenses and intangible capital. When people refer to intangible assets, they are frequently referring to various forms of intellectual property. The intangible accounting definition of “intangible assets” is much wider and includes reference to human interactions, knowledge, quality, cycle time and more.

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For many years, there was little difference between the reported financial (accounting) value of a firm and the market (investor) value of that firm. For example, several decades ago a firm with $1 million in net assets would have a market value of around $1 million. If the market value was more than the net assets, the difference would be referred to as “good will.” Today, there is little correlation between the net asset value (book value) of a firm and the market value of that firm. Today, goodwill has become so significant, that it has been re-termed “intellectual capital.”

In the table below, the top 10 firms (by market capitalization) in the software and programming industry are analyzed from an Intangible Accounting perspective.

Table 1: Determining Intangible Value in the Software and Programming Industry

<table>
<thead>
<tr>
<th>Firm</th>
<th>Symbol</th>
<th>Market Cap (Sm)</th>
<th>Staff</th>
<th>Share Price</th>
<th>Book Value</th>
<th>Intangible Value</th>
<th>iValuing Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft</td>
<td>MSFT</td>
<td>$332,847.12</td>
<td>31,396</td>
<td>$63.25</td>
<td>$7.75</td>
<td>87.75%</td>
<td>8.16</td>
</tr>
<tr>
<td>Oracle</td>
<td>ORCL</td>
<td>$227,259.51</td>
<td>41,320</td>
<td>$80.73</td>
<td>$1.92</td>
<td>97.62%</td>
<td>42.05</td>
</tr>
<tr>
<td>SAP</td>
<td>SAP</td>
<td>$74,167.31</td>
<td>21,699</td>
<td>$59.00</td>
<td>$1.67</td>
<td>97.17%</td>
<td>35.33</td>
</tr>
<tr>
<td>Veritas</td>
<td>VRTS</td>
<td>$57,792.64</td>
<td>2,974</td>
<td>$143.77</td>
<td>$7.96</td>
<td>94.46%</td>
<td>18.06</td>
</tr>
<tr>
<td>Siebel</td>
<td>SEBL</td>
<td>$43,744.89</td>
<td>3,203</td>
<td>$105.00</td>
<td>$2.17</td>
<td>97.93%</td>
<td>48.39</td>
</tr>
<tr>
<td>Ariba</td>
<td>ARBA</td>
<td>$40,603.78</td>
<td>1,600</td>
<td>$168.75</td>
<td>$106.25</td>
<td>45.48%</td>
<td>12.17</td>
</tr>
<tr>
<td>Verisign</td>
<td>VRSN</td>
<td>$37,894.42</td>
<td>394</td>
<td>$194.88</td>
<td>$106.25</td>
<td>45.48%</td>
<td>18.06</td>
</tr>
<tr>
<td>i2</td>
<td>ITWO</td>
<td>$36,887.75</td>
<td>2,800</td>
<td>$186.19</td>
<td>$48.57</td>
<td>73.91%</td>
<td>3.83</td>
</tr>
<tr>
<td>Checkpoint</td>
<td>CHKP</td>
<td>$23,399.84</td>
<td>811</td>
<td>$152.44</td>
<td>$2.18</td>
<td>98.57%</td>
<td>69.93</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$874,597.26</td>
<td>106,197</td>
<td></td>
<td></td>
<td>87.19%</td>
<td>26.64</td>
</tr>
</tbody>
</table>

Intangible Value per share is defined as the unaccounted value of a firm, or the difference between a firm’s share price and its book value [1]:

\[
\text{Intangible Value per share} = \text{Share Price} - \text{Book Value per Share} \quad [1]
\]
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