Chapter I
What is Intellectual Capital?¹

Bernard Marr
Cranfield School of Management, UK

ABSTRACT

Today, intellectual capital is widely acknowledged as a principal driver of performance and a core differentiator for both private enterprises and governments. This interest in the topic has caused a flurry of activities across many disciplines from accountants, to HR professionals, to strategists. Where this has raised the profile of intellectual capital, it has also caused significant confusion about what intellectual capital is. What is often not clearly understood is that intellectual capital is a truly multidisciplinary field. This chapter outlines how intellectual capital as a theme has evolved in different academic disciplines and discusses inter-disciplinary views on intellectual capital. It also outlines some of the major issues to be addressed as well as some possible avenues of how to take this important field forward.

INTELLECTUAL CAPITAL TODAY

Today, many executives recognize the importance of intellectual capital as a principal driver of firm performance and a core differentiator (see, e.g., Marr, 2006; Carlucci et al., 2004; Marr, 2004b). But not only enterprises are seeing the value in intellectual capital; governments are also recognizing the importance of it (Marr, 2004c). The European Union, for example, aims for their membership countries to invest a minimum of three percent of their GDP into research and development initiatives in order to grow their intellectual capital and become more competitive in the knowledge economy. In the United Kingdom, for example, Prime Minister Tony Blair wrote in a recent Government White Paper that creativity and inventiveness is the greatest source of economic success but that too many firms have failed to put enough emphasis on R&D and developing skills. Patricia Hewitt, the UK’s Secretary of State for Trade and Industry, added in a recent report that increasingly it is the
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An increasing number of firms start to report more of the intangible aspects of their business, even without the force of regulations. This trend is especially observable in Europe with various initiatives by the European Commission (e.g., projects such as METITUM, E*KNOW NET, PRISM). Another example is presented by the Danish Department of Trade and Industry, which produced guidelines of how companies can produce intellectual capital reports. In Austria the government has passed a law that all universities have to report on their intellectual capital, in the UK companies will be forced to produce an Operating and Financial Review outlining many intangible elements of their business, and countries as diverse as Iceland, Germany, and Spain have started their own initiatives.

At the same time accounting guidelines are being amended and standards are being questioned and reviewed to reflect the growing importance on intangible elements. With the introduction of the International Accounting Standards more emphasis will be placed on accounting for intangible components and stricter compliance rules force companies to report on other intangible aspects of their performance. Leading software companies such as SAP, Hyperion, Oracle, 4GHI and Peoplesoft are developing applications to address this, and even governments are beginning to measure the intellectual capital of cities, regions, and countries.

Also, many consulting companies have discovered different areas of this increasing awareness and interest in intellectual capital and now offer their services. PricewaterhouseCoopers, for example, offer their services to help companies in their value reporting initiatives to increase transparency in corporate reporting, while WatsonWyatt offer human capital audits. In recent reports or marketing material from different consulting firms this trend is apparent: Accenture writes that today’s economy depends on the ability of companies to create, capture, and leverage intellectual capital faster than the competition. Cap Gemini Ernst and Young believes that intangibles are the key drivers for competitive advantage and KPMG states that most general business risks derive from intangibles and organizations therefore need to manage their intangibles very carefully. PricewaterhouseCoopers writes that, in a globalized world, the intellectual capital in any organization becomes essential and its correct distribution at all organizational levels requires the best strategy, integrated solutions, processes and technology.

Even though the leading management consulting firms recognize the importance of intellectual capital, they seem to suffer from the same predicament as the field as a whole. Intellectual capital is defined differently and the concept is often fuzzy (see, e.g., Marr & Adams, 2004). As a result, many firms provide point solutions only addressing particular isolated aspects of a firm’s intellectual capital such as:

- help with implementing accounting for some intangibles,
- legal advice of how to protect intellectual property such as patents, copyrights, and so forth
- guidance on building customer or stakeholder relationships
- improved stakeholder dialogue and value reporting
- human capital or capabilities assessments
- solutions for valuing brands

Even though these are all important areas, the danger is that organizations are missing out on the big picture. What is often not clearly understood is that intellectual capital is a truly multidisciplinary field. Next, we will expand on this problem.
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