Chapter 1
The Problems and Challenges of Researching Intellectual Capital

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ABSTRACT
The chapter presents an overview of the present state of thinking and research around intellectual capital (IC). I explore IC’s potential as a concept and/or a path towards improved organizational measurement and performance. I distinguish theorizing IC as an alternative form of capital that can be summed with tangible capital (TC) from thinking of IC as that which mediates the economic value of TC. This suggests two quite different IC-engaging theories of the firm. I conclude that IC is simply a metaphor for our experience of sometimes dealing successfully with Knightian uncertainty. If this view can be sustained it follows that there is no way of measuring IC and our community’s principal project - to correct our accounting methods’ failure to do this - is deeply misguided.

INTRODUCTION
To situate IC¹, many lead off with the statement that ‘knowledge’ has become the key to economic viability and vitality in our present circumstances. But why do we believe ‘knowledge’ has become so important, displacing other forms of capital as the focus for strategic analysis? As this volume’s authors indicate, there are two kinds of answer here - and they lead to very different interpretations of IC’s place in the firm and its management.

There is considerable tension between the research programs implied.

The first answer is that it seems clear that the amount of IC, or rather the proportion of most firms’ total capital that is non-tangible, has increased markedly in recent decades. Economists have even tried to estimate this proportion. While we do not know the reasons for the rise for sure, we assume it is a result of technological change, the growing demand for services, the rising extent and complexity of global trade, the increased education necessary to participate in today’s economy, and so on. Examining Tobin’s Q scores might support

DOI: 10.4018/978-1-60960-071-6.ch001
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this. It leads on to a discussion about the need to report the firm’s IC to shareholders, regulators and other stakeholders if the firm’s prospects are to be analyzed properly. It also leads on to a discussion of how IC is built up and how management, by focusing on their organization’s learning, might manage the acquisition and allocation of the firm’s IC as they do its tangible capital (TC).

The objective here is to correct or at least ameliorate our accounting methods’ failure to consider IC and the way this affects management’s practice. Overall we argue the world has changed, undercutting the relative strategic significance of TC, and that our accounting and management procedures have fallen behind. Our field’s goal is to help correct this and thereby help managers, investors and regulators regain a surer grasp of their firms’ strategic situation. The immediate challenge is to develop practical ways of identifying and measuring IC so that new accounting and management methodologies will have something to crunch. We can also hypothesize a firm’s success will be more closely related to the sum of its TC and IC rather than to its TC alone, and be likewise related to the degree of attention management pays to building and/or retaining the firm’s IC.

I believe this program has drawn most of our field’s attention to date. At the risk of offending those of my colleagues who work on this program, I feel that after its initial successes - given that its mere specification attracted the attention of a wide range of managers, regulators, government officials, and others - it has yet to deliver much of value to managers, accountants, or investment analysts beyond the guidelines we find, for instance, in the Meritum, German Federal Ministry or DMTI documents. These are not trifling achievements, of course, and should be well regarded. But as several of our authors note, while they are widely accepted they are little used.

A second kind of answer focuses more directly on - and problematizes - matters the first answer takes for granted. These revolve around the implicit theory of the firm and its value-generating processes. The first answer simply presumes the strategic importance of IC. The firm is then the sum of its differing capitals, modeled as $\Sigma (TC+IC)$. Indeed, many authors define the firm as a ‘bundle’ of resources. But we also know that mere possession of capital - whether TC or IC - seldom explains sustainability or competitive advantage or any of those other terms we use to indicate success or failure. As with the maxim ‘it is not what you know, but who you know’, the second answer sees IC as a substance or process that moderates or mediates the application of TC. This means IC may be something of a different genus. Those who, like me, regard Penrose’s analysis as fundamental here will cite her distinction between ‘resources’ and ‘services’. But the same point can be made in many different ways. The craftsman finds a tool of value only because he knows how to use it; the tool and this knowledge are not of the same type. Those who lack the knowledge find the tool valueless. Note also that the tool’s ‘use value’ may be unrelated to its cost (market value).

The second program, then, leverages from a categorical distinction between TC and IC to probe how organizations add value and become the ‘engines of wealth’ to be contrasted with markets as wealth-distributing institutions or mechanisms. It suggests a theory of the firm unlike the (TC+IC) one above. The focus shifts from the failure of conventional accounting to note IC, obscuring its value to the managers whose job it is to reach the goals their Boards give them, and moves to deal with the absence of an IC-involving theory of the firm - or, in more practical terms, finding guidelines for the managers responsible for running a firm comprised of both TC and IC.

Using symbols to show the relationship between strategic strength (SS), TC and IC, the first program suggests a firm $SS_1 = f(TC+IC)$ while the second suggests a firm $SS_2 = g(TC*IC)$.

The tension between these programs can be illustrated by looking at the development of the
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