Chapter 13
IC Management: Explaining the Gap between Theory and Practice

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ABSTRACT
The objective of this chapter is to understand why companies do not apply models that are commonly known in the IC literature i.e. to explain the gap between the theory and practice. The general research objective is divided into four research questions taking different perspectives on the same phenomenon: the importance of IC and its management, the applicability of IC management models, the suitability of typical general management approaches for IC management and factors affecting the application of IC management models. The research questions are studied adopting diverse research methods. The empirical material includes interviews, a large amount of quantitative data from the financial statements of companies, and case studies in which action research was used.

INTRODUCTION
A company’s intellectual capital (IC, also known as knowledge assets or intangible assets) is composed of various intangible resources, such as employee’s competence, company’s image, customer relationships, business processes and management philosophies. IC is an important source of wealth creation in companies and, therefore, it is necessary to manage these important resources in order to make sure they are utilised efficiently.

As a concept IC management is fairly new and ambiguous. It can be used to refer to various activities in an organisation (see e.g. Edvinsson & Sullivan, 1996), such as identification, measurement, valuation, acquisition and reporting IC. In this chapter a very broad definition for the concept of IC management is used: IC management refers to a managerial activity that takes into account strategically important intangible resources as a
whole in order to support value creation and to improve business performance.

A lot of theoretical work has been done aiming at designing models for IC management. Thus, tens of models to support different managerial tasks, such as reporting, measurement, valuation and development of IC are available (e.g. Brook- ing, 1996; Carlucci & Schiuma, 2006; Edvinsson & Malone, 1997; Meritum, 2001; Ordóñez de Pablos, 2004; Stewart, 1997). On the contrary, research on IC management from an empirical perspective seems to be insufficient (Wu et al., 2006) and there appears to be a wide gap between the theory and practice: companies do not seem to be utilising these IC management models. At least there is a lack of reported practical experiences of the application of those models (e.g. Kujansivu, 2006). Thus there is a considerable need to combine theoretical approaches with companies’ real situations.

This research sheds light on the gap between the theory and practice: the IC management models presented in the IC literature are not used in companies. The research literature suggests that IC should be managed using specific IC management models. If companies do not apply the models, from the academic point of view they are not managing their IC holistically and in a structured way. From managers’ perspective the problem is quite different. For example, it is not known if managers even need these models to support IC management in their organisations or if the models are applicable in practice.

The remainder of this chapter is as follows. The following section presents the background of this study. Next the research methods used in this study are discussed. It is followed by a presentation of the main findings. Next, further research suggestions are proposed. The final section summarises answers to the four research questions, presents practical implications, summarises the contribution of this research and discusses the relevance of IC research.

**BACKGROUND**

IC plays an important role in companies’ and other organisations’ value creation (e.g. Carlucci et al., 2004; Skoog, 2003). Furthermore, the competitive advantage and success of companies (e.g. productivity, growth and performance) depends heavily on their ability to manage their IC (e.g. Bontis, 1998; Chen et al., 2004; O’Regan & O’Donnell, 2000; Teece, 2000). It is suggested that more than half of the value created by a company comes from the management of IC (e.g. Dzinkowski, 2000). Other kinds of benefit obtained from the management of IC are profit generation, strategic positioning, customer loyalty, cost reductions and improved productivity (Harrison & Sullivan, 2000). According to the literature IC and its management are important for companies. Thus, a possible explanation for the gap (i.e. companies are not applying the IC management models) may be that managers do not consider IC important as such and therefore do not need any IC management models. IC may not after all be important in terms of its value and effect on productivity and profitability. It is also questioned whether managers even wish to have tools for IC management.

To support IC management tens of frameworks, models, approaches, methods, guidelines etc. have been introduced in the IC literature. The fact that the previous terms are used interchangeably reflects the incoherence of the research theme. For example, they can be used to refer to a prescriptive set of things to do or to a graphical presentation (cf. Yusof & Aspinwall, 2000). IC management models used at company level can be classified into different streams (see e.g. Andriessen, 2004). For example, IC management models can be divided into the following three branches:

- Models for external reporting or disclosing IC (e.g. DMTI, 2003; Meritum, 2001; Ordóñez de Pablos, 2004)
- Models for the (monetary) valuation of IC (e.g. Pulic, 2000; Stewart, 1997)
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