Chapter 3

Intellectual Capital in a Services-Oriented Firm:
The Case of Italian Public Utilities

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ABSTRACT

This chapter discusses the Intellectual Capital (IC) and its management within the services-oriented firms. It argues that IC and its management are as important as in a product-oriented firm. The authors aim to analyze the intellectual capital in the service-oriented firms, focusing on various components, such as human, structural, and relational capital (IC stock), and how to manage it (IC activities). Specifically, the authors examine IC stock and IC activities in a special type of Italian services firms: the Local Public Utility (LPU). These firms are peculiar since were affected by the privatization process and this has made a great need for rethinking the role of intellectual capital within their structure and how to handle it.

INTRODUCTION

In the current knowledge-based economy, Intellectual Capital (IC) has been seen as the key element for a competitive business (Stewart, 1997; Guthrie & Petty, 2000; Blackler, 2002; Carmeli & Tishler, 2004; Schiuma, et al., 2007; Yi & Davey, 2010). IC is a company asset such as professional experience, skills, knowledge, organizational structure and routine and internal/external relationship. The most common IC framework classified these characteristics into human capital, organizational or structural capital and relational or customer capital (Edvisson & Malone, 1997; Stewart, 1997; Guthrie & Petty, 2000; Youndt & Snell, 2004). Human capital consists in knowledge, skill, and experience of employee and manager. It is a kind of capital, which is not the property of the firm, so the company needs to enforce the link with its workers as well as needing to find ways to transform the tacit knowledge into structured knowledge. The organizational capital (or structural capital) is represented by institutionalized knowledge and codified experience stored in database, routines, patent, manual (Bontis, 1998; Stewart, 1997). Whereas human capital is possessed by the em-
employees, structural capital is controlled, possessed and managed by the firm. In this sense, structural capital can be seen as the skeleton and the glue of an organization because it provides the tools and architecture for retaining, packaging, reinforcing, and transferring knowledge along the business activities (Cabrita & Bontis, 2008). The relational capital consisting of knowledge resources derived from networks of relationships between peer, customers, suppliers, and business associates. These three new forms of capital capture a company in movement as it transforms its skills and knowledge into competitiveness. Therefore, company necessity to maintain and develop the existing capital structure and also acquire know-how, skills and professionalism, train and develop employees by emphasizing their business skills and capital to focus on trading and customer.

In Service Company, IC and knowledge management are more important than in production-oriented companies (Kianto, et al., 2009). Nowadays, there is a lack of systematic research on whether there are fundamental differences in the IC of service-oriented versus product-oriented companies. For this reason the chapter aims to examine the IC stocks and IC activities in firms that operated in service business (Service Company). In detail, the chapter examines a particular form of Italian Service Company named Local Public Utilities (LPU). The LPU are companies operating in the sector of services, established today, as limited companies in which the majority shareholder is public while private are minority shareholder. The aim of LPU is to create value for stakeholders where LPU stakeholders are not only the contributors of resources but also the communities to which are addressed services produced (Catturi, 2004). In LPU, therefore, create value for stakeholder means to adequately compensate all the factors used in the production process and meet, at the same time, the needs of local communities (Grossi, 2005). The LPU, like all other businesses, must act to create value not only on the material aspects but also on the intangible elements, namely the acquisition, maintenance and enhancement of IC in its three dimensions of human capital, structural and customer / relational. In the past, however, those companies were focused only on one IC aspect (structural capital).

In this chapter, in detail, we discuss on characteristic of IC in Service Company focused on LPU. Since IC can be classified in static (IC stock) and dynamic (IC activities) in next paragraph we preliminarily focus attention on IC stock, or on the component of IC, and on IC activities, such as the activities trough which it is created, managed and coordinated (Meritum, 2002; Kianto, 2007, 2009) then fell to the classification to Service Company. The studies that analyse IC in Service Company are limited and no studies analyze the IC stock and the IC activities in firms which were, in the past, characterized from acting as a public monopoly and now privatized. Therefore occurs first illustrate the evolution of the LPU and their actual characteristics and then examine, also using a case study, the role and the management of IC in this organization in the past oriented exclusively at physical capital that today operate in competition with other firms.

**LITERATURE REVIEW: STATIC AND DYNAMIC VIEW OF IC**

Intellectual capital is the overall knowledge that exists in an organization (Bontis, et al., 2002). This can be classified in static and dynamic (Kianto, et al., 2009). The static view of IC is represented by all element of IC that are controlled by firm (IC stock) while dynamic approach concern the activities trough which IC is created, managed and coordinated (IC activities) (Meritum, 2002; Kianto, 2007, 2009).

Under the first profile, the literature not offers a unique definition of IC (Edvinsson & Malone, 1997; Brooking, 1998; Stewart, 1999; Bontis, et al., 1999; Roos, et al., 2000; Lev, 2001) but all consider knowledge as an asset of the company;