Chapter 14
Creating and Destroying Knowledge: A Field Study

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ABSTRACT

This chapter develops the discussions about Intellectual Capital (IC) dynamics. More in depth, here IC is analysed in terms both of value creation and of value destruction adopting a temporal lens. The main findings of this study are the following. First, it emerges that the roles of IC in creating and destroying value are not the same and thus there is the managerial need to consider both of them. Second, it emerges that the time-lags related to IC tend to be not monitored but only perceived. Third, IC and FC are perceived to be a “distant” relationship in time (i.e., deferred in temporal terms). Forth, the time-lags related to the value destruction process do not the ones referred to the value creation one.

INTRODUCTION

The acquisition of knowledge has become the most important factor of production for enterprises. The core concept in modern management focuses on how enterprises acquire, handle, store, apply and create knowledge. From the resource-based view, knowledge can be regarded as a resource of an enterprise. If knowledge of an enterprise encompasses characteristics such as heterogeneity, imperfect imitation, imperfect substitutability or imperfect mobility, it creates a more lasting competitive advantage for the enterprise (Barney, 1991; Barney, 2001). Some argue that some signs of the relevance of knowledge in determining the long-term success of a company are the gap between market value and book value, the fact that knowledge is often the key objective in mergers and acquisitions and the fact that knowledgeable companies are increasingly repeating to use these knowledge assets to create value for those companies. Nevertheless, the role of knowledge in business is insufficiently understood.

In the last decades, the whole of organizational resources based on knowledge had been labelled as “Intellectual Capital” (IC) (Edvinsson, 1997; Stewart, 1997; Sveiby, 1997). In literature it is possible to find several definitions of IC such as the system composed of all of the firm’s intangibles...
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(Meritum, 2002), or as the sum of everything everybody in a company knows that gives it a competitive edge (Stewart, 1997), or as a combination of knowledge flows (Mouritsen, Larsen, & Bukh, 2001) or of connections between intangible resources (Chaminade & Roberts, 2003). According to the Meritum Guidelines (Meritum, 2002), IC is based on knowledge and can be divided into human capital, structural capital and relational capital.

Two main research perspectives on IC can be identified: the static and the dynamic one. While the first perspective focuses on the stock of IC resources (static approach) in order to understand the difference between market value and book value, the dynamic perspective is centred on flows. Several scholars have highlighted that investigating IC dynamics allows understanding how IC creates value, how it works and what it does within the organisations (Kianto, 2007; Marr, Schiuma, & Neely, 2004; Mouritsen, 2006).

In order to support the management and reporting of IC dynamic, several methods and tools were proposed. In particular, indicators referred to IC activities, causal maps and narratives were introduced within the whole of accounting technologies. In particular, while some of these instruments already existed in literature and therefore scholars and practitioners focused on how to adapt them to the IC context, others have been created ad hoc for visualising, measuring and reporting IC with the idea that this new object requires for new accounting systems (Stewart, 1997).

The studies on IC dynamics tend to focus now on the conceptions and then on the methods and tools. This seems to overlook two aspects: the first is the idea of IC as a process over time, and thus also a temporal lens has to be adopted in order to visualize, understand and manage it adequately (Giuliani, 2009); the second is that IC does not only create value but can also destroy it (Caddy, 2000). Therefore in this study, IC is observed “at work,” adopting two perspectives: the temporal one and the value destruction one.

The aim of this study is to analyse IC dynamics in terms of value creation and value destruction from a temporal perspective. Thus, the questions of interest are the following:

- Do IC destruction processes simply mirror the creation ones or do they have their own characteristics? In case of not mirroring, it would imply the emergence of a gap in IC visualisation and management practices and it could be a mistake to leave them out of discussions in order to focus only on IC.
- As knowledge requires time to be created, does it require the same amount of time to be destroyed? Or is it a faster/slower process?

To achieve this purpose, a case study is investigated. In details, the management of Aesis is interviewed regarding its perception of the company IC creation/destruction processes.

This study contributes to the literature on IC dynamics in several ways. First, in comparison to previous studies on IC dynamics, this one does not consider only the value creation side of IC but also its value destruction one. Moreover, this study adopts a temporal lens, which is rarely applied in the IC discourse, in particular, and in the accounting one, in general. By doing this, it shows how to enrich causal maps introducing the time dimension. Finally, this study offers some insights about IC dynamics in practice (Dumay, 2009; Guthrie, Ricceri, & Dumay, 2012).

The structure of the study is outlined as follows. The next section proposes a brief review of the prior knowledge of the basic elements of the study, followed by a description and in-depth analysis of the case study carried out. In the central part, an attempt will be made to make sense out of the case findings and to develop the theoretical arguments of the study. Finally, some valuable insights are extracted and systematised to draw some conclusions and to propose future research opportunities.