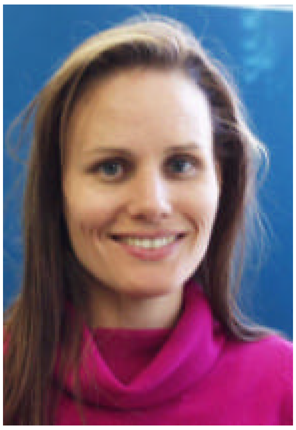
Intellectual Capital and Knowledge Management: A new era in management thinking?

Jodee Allanson



Jodee Allanson (e-mail Jodee.Allanson@srq.qld.gov.au) is an Organisational Psychologist who has worked with number of public and private organizations in the areas of organisational development and human resource management. Jodee is a PhD candidate at Queensland University. Jodee's PhD study aims to examine the personal and social determinants of knowledge sharing behaviour within organisations. Jodee is also currently working with the Department of Sport and Recreation implementing the knowledge management framework in conjunction with her PhD.

A burgeoning amount of articles, books and commentaries on intellectual capital have surfaced in recent years. Images of the 'old economy' and 'new economy' have swept the pages of management journals and populated an increasing number of practitioner and academic publications. So important is the 'new economy' that the Australian Securities Industries Commission has reinvestigated the methodology for valuating companies, emphasing that the true value of a company is reflected not only in their tangible assets, but also their intangible assets.

Among many other researchers, Annie Brooking has applied 'Tobin's Q' to represent the dollar value of intellectual capital. It is a function of the difference between a company's book value and what someone is prepared to pay for it (Brooking 1997). Any difference is believed to represent the value of a company's intellectual capital assets because it is the company's intangible assets, namely intellectual capital that is not represented on the balance sheet.

But what does this new perspective mean for management thinking? Is it simply another fad, fuelled by the pursuit of scientific interest for research sake or a need to fulfil an intellectual self-interest to drive management thinking beyond its traditional boundaries? Alternatively, is this era a true reflection of the 'real world', a reflection of a 'real need' produced by a world dominated: by rapid technological advances; increased globalisation; the increased speed of information transfer; rising competition and deregulated markets; and the rise of consumerism in 'intangible' products? The answer to these questions may lie in a historical account of the growth of the intellectual capital era.

The Growth of Intellectual Capital

The majority of work on intellectual capital to date has been primarily pioneered by practitioners, industry and national bodies. This is a reflection of the need to consider 'new' approaches due to changes in economic, market and social trends.

At the national level, Sweden led the way in defining this evolution. The country was the first in the world to attempt to calculate the value of its country's intellectual capital output. In pioneering work, Skandia AFS, a company in Sweden, evaluated its intellectual capital by defining it as a function of human and structural capital (Edvinsson 1997). Leif Edvisson in the *Journal of Long Range Planning* provides a summary account of the work conducted at Skandia on intellectual capital. Structural capital represented what remains in the organisation after all the people are removed from the system. It included customer (for example, value achieved through relationships with customers) and organisational (for example, processes, systems, procedures, culture) elements of capital. Human capital on the other hand represented 'in the head' ideas, knowledge, skills, abilities and other attributes of human resources that add value to a firm or company.

Since this earlier research other researchers have contributed to the field by further conceptualising and refining the defining characteristics of intellectual capital. However, the question remains: has management thinking demonstrated any great leaps forward from this earlier work conducted in Sweden and at Skandia? Is intellectual capital a less nebulous term; is it more practical and easily applied to accounting, and what meaning does intellectual have for management practice?

Intellectual Capital as a Tool for Managing Knowledge

Karl Sveiby was an early proponent of the intellectual capital evolution and has advanced the notion of intellectual capital as it applies to organisational knowledge management. As a researcher and manager of numerous 'knowledge intensive' organisations Karl Sveiby, along with other prominent gurus in knowledge management, viewed knowledge as comprising of tacit (ie., verbalised, non-codifable knowledge, such as culture, symbols, artefacts) and explicit (ie., codified information such as systems, procedures, libraries, databases) elements. Essentially a company's intellectual capital offers a means for producing the tacit and explicit dimensions of knowledge.

While numerous technology solutions for codifying knowledge prevail, the challenge for management is to translate unique and valuable dimensions of tacit knowledge to create sustainable competitive advantage. This challenge has prompted researchers to search for ways of understanding the tacit dimension and to offer solutions that tap into and build upon its worth.

Moving from early transaction cost economy theories (Williamson 1975) viewing human capital as essentially a cost to the organisation, management theorists have entertained relational (Dyer & Singh 1998) based perspectives of firms, viewing human capital as an investment. These theorists focus on the tacit dimension and ways of creating knowledge through investments in the social intelligences of the firm. This means developing cultures based on trust, commitment, collaboration and work practices that encourage quality human interactions.

In making the transition from strategies based on physical assets to those based on intangibles, companies have began to implement work practices to encourage quality social interactions. Progressive organisation such as 3M, KPMG, McDonald's, Disney, General Electric and Boeing have touted the benefits of encouraging healthy social interactions (Collins & Porras 1999). These organisations adopt work practices such as communities of practice, mentoring and coaching, corporate universities, brown paper lunch bag sessions and a myriad of other knowledge sharing forums. These strategies mean organisations can benefit from sharing tacit knowledge by taping into existing sources of tacit knowledge and encouraging the advancement of ideas produced through tacit channels. The strategies or initiatives essentially offer a mechanism for learning to occur across individuals and groups. You might ask what is the difference between strategies espoused by these two seemingly *like* eras in management thinking, namely organisational learning and intellectual capital?

Intellectual Capital and the Evolution of Management Thinking

It may be asserted that organisational learning offered a good stepping-stone into the knowledge era. Learning was largely important in the 80s and 90s with the drive for Australia to become a 'smarter country'. In fact, organisational learning represents the process or means for achieving the broader organisational objectives of knowledge absorption, creation and generation. It goes without saying that organisational learning offers an important step in the attainment of the efficient and effective management of intellectual capital.

As most practitioners and managers would note many of the practices underscoring team based and organisational learning theories are akin to 'new' knowledge enhancing strategies. It seems that the management of intellectual capital builds and draws upon previous eras of management thinking.

In management practice we have all been exposed to 'management fads'. In the past, strategies including Taylorism, scientific management, T-groups and sensitivity training, process reengineering, the learning organisation and more recently the upsurge in knowledge management have occupied managerial 'head space'. However, much speculation has arisen about the success of these approaches and much of the failure to demonstrate successful implementation on these management strategies has been attributed to their 'faddy' nature.

However, it is important not to discount the benefits of past management thinking. Borrowing a biological perspective, not unlike the evolution of human and animal species, each new era of management thinking offers insights and learnings required for the long-term sustainable growth and prosperity of organisations. As evidenced by the transition from organisational learning to knowledge management each evolutionary management thinking or ideology contributes and builds upon thinking over time, demonstrating a vital link for enhancing and encouraging the continual growth of organisations.

Yet if benefit is to be gained from these ideologies, they must be 'contextualised' and demonstrate a 'fit for purpose' within the organisational context. Competitive advantage is contingent on anticipating and being responsive to political, social, market and environmental changes. While certain strategies may be chosen to meet the unique needs of an organisation, it is often the *process* of implementation that tarnishes successful outcomes. Resistance to new approaches, competiting priorities and demands, the reactive nature of organisations and human 'inertia' represent some of the barriers to effective implementation.

Therefore, it is not so much the principles underlying the espoused ideologies and their accompanying strategies in so much as the *way* the strategies are implemented. They represent a potential value in their own right and it is the translation of these principles to practice that often represent 'failure'.

Conclusion: The Value of the New Era in Management Thinking

So in the tradition of management fads, and in light of the need for organisations to develop strategies around intangible assets so as to achieve competitive advantage, it would seem that the rise in focus on intellectual capital represents a natural progression for management. However, whether the potential value of intellectual capital and knowledge management principles will be achieved will depend on how they are implemented. In a similar vein, it is important that practitioners, managers and academics alike achieve a 'fit' between intellectual capital strategies and unique organisation contexts. The potential success of intellectual capital strategies may, therefore, be realised by building upon previously established management ideology and learning from new insights that can only be gained by putting the strategies into practice.

References

Brooking, A. 1997, 'The Management of Intellectual Capital', *Long Range Planning, 30*(3), 365-366.

Collins, J. C. & Porras, J. I. 1999, *Built to Last: Successful habits of visionary companies,* Random House, London.

Dyer, J. H., & Singh, H. 1998, 'The relational view: cooperative strategy and sources of interorganizational competitive advantage', *Academy of Management Review, 23*(4), 660-680.

Edvinsson, L. 1997, 'Developing intellectual capital at Skandia', *Long Range Planning, 30*(3), 366-373.

Williamson, O. E. 1975, *Markets and hierarchies: Analysis and antitrust implications,* Free Press, New York.