

“Knowledge Based Economy

In the traditional sense of the word, ‘capital’ is a reference to physical and tangible assets, which include, for example, inventory and cash on-hand. In the information age, we have been heading more and more towards a knowledge-based economy where intangible, intellectual capital accounts for the majority of overall corporate value.”¹

“Defining Intellectual Capital

Traditionally, companies have been assigned book values which appear in Dun and Bradstreet and Moody's. These values are assumed to reflect the worth of the respective company, based on the financial value and the confidence in the company. Such book values are frequently referenced in traditional reporting. However, some companies can be undervalued, because they possess considerable hidden values that are not accounted for in the book value. According to Leif Edvinsson, these hidden values differentiate companies and give them a competitive edge. Therefore, grasping and systematically managing the resources that contribute to intellectual capital is essential. For companies in the knowledge area, development of new measurement approaches and indicators, in addition to traditional financial indicators, has become critical.

The AFS definition of intellectual capital is the knowledge, skill, and technologies used to create a competitive edge for Skandia. Intellectual capital encompasses the access to and use of all employees' knowledge and applied experience, and the organizational structure, technology, and professional systems within a firm. These elements translate into competitive advantage and monetary gains.”²

“IC Components & Attributes

Intellectual Capital is actually made up three subsets of capital.

- Human Capital refers to the knowledge resident in the heads of employees that is relevant to the purpose of the organization.
- Relational Capital refers to the value of a company’s ongoing relationships with the people or organizations to which it sells.
- Structural Capital refers to knowledge assets that ‘don’t go home at night.’”¹

References:

¹ Lee, W.B. (2008), Brains over Brawn: From managing people to managing intellectual capital and knowledge. HR Magazine: Managing Intellectual Capital.

² Edvinsson, L., & Maylun, B.L. (1999) Intellectual Capital at Skandia, available at <http://www.fpm.com/cases/el3.html>