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Practical Utility of Intellectual Capital Approach-A Critical Analysis

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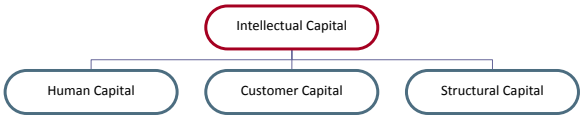
ABSTRACT

IC is a system composed of three elements: Human Capital, Customer Capital & Structural Capital. These three elements of intellectual capital represent and comprise the organization's stock of intangible assets. As knowledge is exchanged below these elements the value creation takes place. This paper describes knowledge object and insists on the technology impact on information content management. Two models namely "Dynamic Systematic Knowledge Management" and "Generic Systematic Knowledge Management" are drawn for this purpose. Critical shortcoming of Intellectual Capital-based approaches is pointed out and a new approach is proposed.

KEYWORDS: Intellectual Capital, Knowledge Management, Systematic Knowledge management

INTELLECTUAL CAPITAL (IC)

IC is a system composed of three elements: Human Capital, Customer Capital & Structural Capital. Human Capital is defined as "the capabilities of the individuals in an organization that are required to provide solution to customers"; Structural Capital is defined as "the organizational capabilities of the organization necessary to meet the market requirements"; and Customer Capital is defined as the "the depth, width and profitability of the organization's franchise".



Intellectual Capital represents the aggregate intangible capability at the disposal of an organization and includes legally protectable and exploitable assets such as brands, distribution channel, product pipeline, copyrights, licenses etc. these three elements of intellectual capital represent and comprise the organization's stock of intangible assets. As knowledge is exchanged below these elements the value creation takes place.

KNOWLEDGE MANAGEMENT (KM)

The origins of the term have not been properly researched. In 1992 -1994 the title emerged in Europe authored by researchers at CIBIT (notably by Rob van der Spek). The paper describes knowledge object and insists on the technology impact on information content management. The early writings by US authors also regard knowledge as objects and they are inspired by the emerging internet.

The Swedish description of knowledge Management and Japanese origins of Knowledge Management go back to the writings of Ikujiro Nonaka in the mid of 1980's,

During different discussions that took place in the early 90's around intellectual Capital, the word "Knowledge" in various forms was researched and followed.

There has been a growing trend to treat Knowledge Management in a more systemic organization sense to include the social and the technological implication of any attempt to manage an organization's intangible assets.

The social implications of treating knowledge management in this broader and more useful sense include consideration of questions involving such cultural factors as the degree of trust and openness in organizational communities; the personal consequences of collaboration; effective learning platforms; and many other subtle aspects of human interaction.

If we are looking for differences, Intellectual Capital is static and needs a verb to describe what managers can do with it. Knowledge Management is already active with its verb. However, "Management of Knowledge" is very abstract and we prefer to define Knowledge Management as, "The art of creating value from intangible assets, the value being both financial and non-financial.

People actively using "Intellectual Capital" in their work seem more active in measuring, auditing and valuing issues and in "capturing" Knowledge. However, it depends on how they understand what knowledge is and the aim both of Intellectual Capital and Knowledge Management, the dynamic properties of knowledge.

The change in emphasis from Intellectual Capital to Knowledge Management leads to more detailed exploration of "what knowledge is" and "what knowledge an organization needs to successfully implement its strategies successfully." Know-how, Know-what and Know-why, for example, are categories of knowledge which might be used before a knowledge management system is implemented or designed. In this work I have utilize knowledge categories such as data, information, intuition, skill, understanding and wisdom. All the social aspects of any such knowledge management system would be addressed as well as the I/S implications.

SYSTEMATIC KNOWLEDGE MANAGEMENT (SKM)

Systemic Knowledge Management includes the processes, the tools and infrastructures by which these goals are modified as the organization's knowledge base changes.

Figure 1 : The Financial, Tangible and Intangible Asset System.

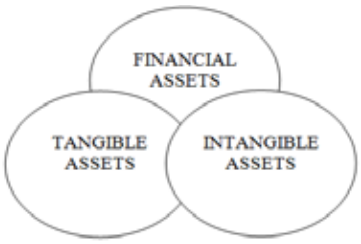


Figure 1 represents the overall organization system of financial, tangible and intangible assets as a Venn diagram. Areas where elements do not overlap represent asset potential; areas of overlap between two elements represent areas in which competitive opportunities can be partially captured; areas where all three elements overlap represent the opportunities which can be optimally addressed by the organization.

Figure 2 : The Customer, Human and Structural Capital System.

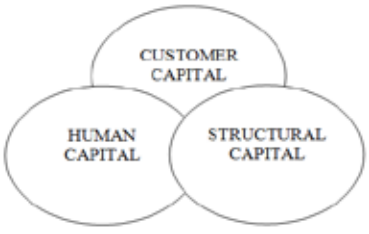


Figure 2 shows that subsystem "intangibles" can itself be represented by a Venn diagram where the system is made up of Human Capital, Structural Capital and Customer Capital. Overlaps or lack of overlap of the three Capital elements can be construed in the same way as for the system shown in Figure 1. The elements shown in Figure 1 and Figure 2 are interrelated.

Figure 3 : Dynamic Systemic Knowledge Management System
(Model Development Phase 1)

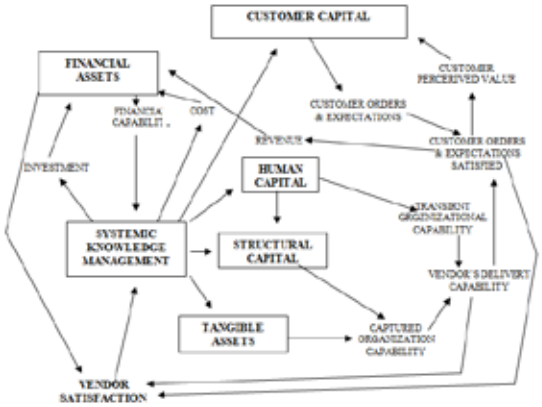


Figure 3 shows a simple dynamic view of how interconnections between financial, tangible assets might be visualized generically and can be used for commercial advantage through a Systemic Knowledge Management System (SKMS). It should be noticed that traditional accounting practices are not violated in this approach. However, any consequences of investments and expenditure will be clearly evident in the measured responses. Such models are typically computer based and constructed from a technical point of view. Operational parameters can be changed at intervals representing real-time elapsed months, years etc. In this way a dynamic sense of how to run an organization for long term can be gained.

Figure 4 : A Generic Dynamic Systemic Knowledge Management System
(Model Development Phase 2)

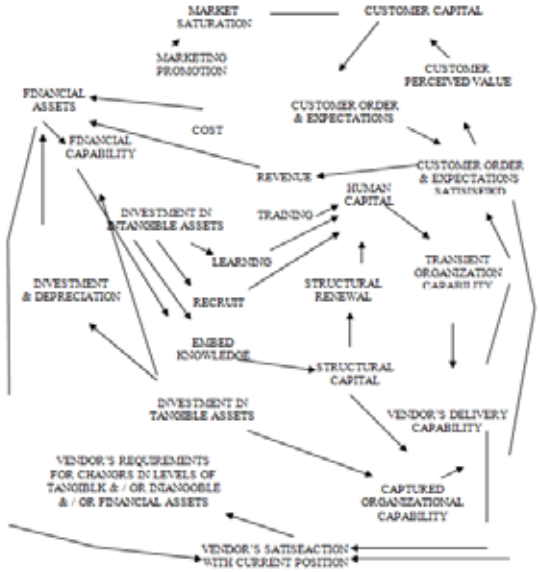


Figure 4 shows how additional layers of complexity can be developed so that the real practical insights can be gathered during simulation runs.

All manner of outputs can be measured and reported during the simulations to help understand the dynamics of the situation in making decisions and helping to design to design real-life business-monitoring processes. This approach to SKM has been demonstrated by Drew & smith (1996). They explored the case of a manufacturer of specially automobiles with special reference to different strategies in investing tangible- or intangible- related initiatives.

In such simulations, the BSC can be combined with a dynamic model to provide the best of both approaches. At fist the BSC is used for discussing a high level strategy and preliminary decisions making. Then potential results were operated. The BSC can then be used to measure and monitor operational results from time to time with fresh data to provide a window on emerging potential threats and longer term outcomes.

CONCLUSION

Basically the Intellectual Capital approach has helped us in providing a framework within which the nature and the value of intangible organizational assets and its emergence in practical from such as the BSC and KMI / s are invaluable. However, in this article I pointed out to a critical shortcoming of IC-based approaches which insist on the importance of intangible assets at the cost of financial and tangible assets. Moreover I noted that BSC and KM I/S approaches do not clearly accept the dynamic inter-relatedness of all organization's assets. To overcome these I proposed a new approach named as Systematic Knowledge Management (SKM).

In their application to organizational planning, issue resolution and learning, it is adequate theory and practices in the areas of "System Thinking" and "System Dynamics". They look logical and practical.

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