



Intellectual Capital: Some Practical Experiences

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It is evident that the new environment of competitiveness in which organizations operate require fresh new management tools with which to identify their future. New tools are required to define new procedures of organizational progress, positioning companies to compete better and more sustainably over time.

In the course of deploying business strategies, many organizations around us adopt models which are either excessively conservative, or classical in the least, or lacking in differential elements vis-à-vis their competitors. There are those who adopt concepts or models which turn out to be passing fads, instead of a strictly personalized business model with which to manage their organization.

From my personal point of view, this is one of the cardinal errors committed when dealing with processes of knowledge management and measuring intellectual capital. Rather than putting in place a unique and untransferable project for the organization, most managers opt for accepting ready-made, out of the box models or praxis that were not internally generated. Just as there are no two people who are the same, no two companies are the same, and likewise no two progress mechanisms are the same. We can learn from others, but not copy them.

Personally, I believe the prime responsibility of management, which goes unmet most-times, is the definition of the organization's future project. As professor Gary Hamel says: "Each organization has its own Strategic Intent, a space in which only it can occupy according to its capacities, aspirations and established relationships". It is this Strategic Intent that is the very foundation upon which the processes of Knowledge Management and Intellectual Capital ought to be built on in order to successfully transform an organization.

By presenting knowledge management as a novelty, it is not to be implied that traditional organizations are not already managing it. The vast majority of organizations today implicitly possess the capacity to capture, create and manage knowledge, and to change and adapt to new market demands. Nevertheless, most organizations unfortunately fail to reach a satisfactory level.

Our experience as consultants has shown us that successful projects in knowledge management and intellectual capital share a number of common elements. The reason why so many projects have failed in recent years was due to incongruence with those common elements:

- **The need to align organization strategy with knowledge management and the measurement of intellectual capital.** A great number of project initiatives are promoted from the human resources department and not from the head office. The feasibility of this type of project is dependant on whether it constitutes the vertebrae of the organization's transformation process, being the catalyst which will lay out the company Road Map toward strategic change.
- **The suitability of establishing processes of knowledge management and transformation of the various elements of intellectual capital to facilitate business processes.** These management tools should be focused on meeting

the organization's objectives and basic strategic lines, avoiding elements which have been dissociated from processes of added value generation.

- **Technology is a key factor, but just as a facilitator.** Technology heavily influences most projects on knowledge management and intellectual capital measurement, highlighting the instrumental side of the *raison d'être* for the organization.
- **People are what make a knowledge management model work.** Many companies have neglected to include people in the organization's knowledge management programmes. Structuring and entrenching processes of that knowledge becomes requisite to realizing the transformation in the appropriate environment. The end result is it ultimately leads to generating profit for the organization.

Many companies pay lip-service to the importance of knowledge and how vital people are to the mechanisms of progress. However, when they traverse an economic rough patch their response is to dispense with people so as to strengthening the bottom-line in the short-term. This sends out the wrong message and seriously hampers strategies based on people in neighbouring organizations.

- **It is essential to ensure the commitment of the management team to usher in the implantation of key corporate functions.** Every time we undertake the transformation processes, the involvement of the management team is critical and that it be readily perceived by the rest of the organization. It is especially relevant in this type of processes that deal directly with people and their interaction with their and other organizations.

Unfortunately, I must point out that our experience over the last few years has shown that most managers consider it politically correct to speak about knowledge management, when in reality, for the most part, they have not walked the talk.

- **It is necessary to reconcile knowledge management mechanisms with the organization's intellectual capital.** The essence of knowledge management lies in the mechanisms of transformation of the human capital into structural capital, and in turn, into relationship capital, in keeping with the most common model among Spanish companies: the Intellect model. Regardless of how good the measurements are, the management team should focus consciously on managing these mechanisms, being that they are the determining factors in company differentiation.

I am convinced that the element of differentiation in companies vis-à-vis their main competitors is, and will continue to be, part of the basic assets of an organization. Below are some examples:

- a) inherent capacities of the organization's individuals;
- b) their ability to innovate, to create and acquire knowledge;
- c) the capacity to hold constructive dialogue with people within the organization and with related agents;
- d) the ability to adequately handle the enormous amount of information and knowledge available on the internet and via the human network;
- e) to take

advantage of emerging opportunities; f) appropriate risk management; g) the harmonization of divergent thinking.

In my view, the incorporation of mechanisms of managing intellectual capital, where companies analyze the processes of value creation via intangible assets, constitutes a solid source of identifying and promoting necessary talent in today's organizations. The organization's inspiring traits of **Human Capital**, based on individual skills, knowledge and attitudes within the organization need to be identified. That **Human Capital** is later transformed into **Structural Capital**, spawning more long-lasting organizational talents. Then, by transferring it to **Relationship Capital**, relationships with other agents generate measurable and manageable connection assets with other organizations.

It is *sine qua non* that the organization take the talent of its individuals and make it the very heart and soul of the transformation process in the process of reinventing itself. The company must generate an appropriate framework to allow innovative processes of knowledge creation applicable to business, by bringing together mechanisms of transmission and dissemination of knowledge. Designing open companies with multi-lateral relationships with other organizations permits employees to access new knowledge and/or working mechanisms to foster internal creativity.

If we understand and accept the premise that Intellectual Capital is a company's intangible asset, we also understand that it ought to be the groundwork upon which an organization's capacity for learning and improvement is laid. Therefore, an organization which effectively and efficiently manages and evaluates Intellectual Capital ought to then set in place mechanisms and management indicators to facilitate the development of the following three crucial elements:

- a) the employability of people; b) the structuring of the philosophy and performance mechanisms; c) the company's relationships with agents it interacts with.

Enhancing the **employability of people** is a growing challenge for companies, who are called upon to set up management systems and practices to expedite the development learning capacity of individuals. Furthermore, these systems would actively favour their creative and innovative capacity permanently, as well as align their personal competencies and skills with the organization's essential competencies. Individuals, who are more creative, versatile and eager to learn, are the foundation for developing an organization capable of learning and growing.

The permanent **structuring of knowledge** in the organization becomes a performance imperative for all companies who manage their Intellectual Capital. It must be among management priority tasks, if the inherent capacities of individuals are to be transformed into management mechanisms shared by the whole of the organization. The objective is to secure sources of differentiation from the competition derived from the following:

- a) solid cultural traits and business philosophy; b) management systems and techniques; c) work routines; d) the participation of various collectives within the company; e) management team cohesion, as well as that of the whole of the organization; f) information technology, etc.



Strengthening **company relationships** is where the management of intangible assets must converge within an organization by means of ameliorating company capacity to interact with present and future clients. This is realized by developing innovative processes of promoting client loyalty, involving clients in management, innovating systems of commercial relationships while seeking mechanisms of improving the brand value, among others. Moreover, this implies the search for new procedures of cooperation with clients, suppliers, collaborators and competitors, and with other related agents, may all add value to the company.

Each company must develop their own model of Intellectual Capital which must also be inextricably linked to the company strategy. It must additionally be an open and flexible model to ease adaptation to changes in both the company and circumstances. It must also target measuring results and processes produced, and be capable of integrating measurements in a variety of units. Lastly, the model must adequately merge the present with the future, internal and external factors, and tacit with explicit knowledge.

Companies, who embrace management of Intellectual Capital, integrating it into their philosophy and setting it into practice, will be better acquainted with and boost their true sources of differentiation in comparison to their competitors. As a result, at the core of a new organizational culture is improving individual capacities and propagating it throughout the organization. In turn there will be more willingness and openness to assimilate new knowledge and new ways of performing in response to changing exigencies and circumstances. Further to these benefits, the strategic deployment of the organization will be more effective since it blends the financial side with improving the value of intangible assets, enabling an integrated system of management performance indicators. Finally, the focal point of these indicators would be the most relevant aspects of the strategic vision, monitoring and evaluating the capacity to generate profits in a sustainable fashion over the long term.

Additionally, the Management and Measurement of Intellectual Capital can assist the company in reporting more accurately to the Market regarding the company's potential, increasing future value. In consequence, the company's public image would be reinforced, complementing the already available information from related agents.

From my perspective, if we are to take a leading role in the competitive environment we have found ourselves in since the turn of the millennium, we must without a doubt metamorphose into companies with a veritable entrepreneurial calling. Reinventing the process of ongoing improvement, found in newly-founded ventures, is an absolute requirement. Consequently, the reigning culture in an organization will be one of unfettered creativity, innovation, learning and cooperation.

If this is the type of organization we wish to build, then the old management paradigms are no longer valid. Although it may not be the only, nor most appropriate for all companies, Intellectual Capital can be a motivating vehicle moving toward the goal of differentiation.

RECOMMENDATIONS FOR ACTION

One can theorize at length on the importance of Knowledge as the backbone of business strategy, but I would rather list the following recommendations on mechanisms for learning enhancement in organizations:

- **Integrate Knowledge in the Definition of the Company Vision.** When an organization's future is being determined, it is necessary to determine what knowledge ought to be created, acquired, improved or destroyed to guarantee harmonic development.
- **Enshrine the Organization's Collective Memory.** It is vital that all organizations develop mechanisms to structure and disseminate existing knowledge coherently throughout the life of the organization, thereby avoiding *individualizing* knowledge.
- **Foster Diversity and Creativity in Management Teams.** We must avoid cloned management teams like the plague, with their identical opinions and work styles and feelings. None other than the diversity of opinion and styles can give rise to solid and creative learning mechanisms to be able to cope with our ever-changing environment.
- **Hold Strategic Conversations.** It is fundamental to endow organizations with a long-term vision in management and to *waste* time day-dreaming about the Future. Only by imagining future scenarios will we be able to discover a differential path from our competitors.
- **Establish Mechanisms of Cooperation with Other Agents.** Companies must spur permanent exploration of new management goals, new ways of relating to and of dealing with clients, and new tools for managing people, all to develop latent capacities in organizations.
- **Metamorphose the Role of Managers.** Replace the almighty Manager who takes decisions in function of their position in the hierarchy. The only way to develop learning capacities in organizations is to assign a new role to managers, that of educator and facilitator of professional and personal progress of organization members.
- **Manage the Value of your Organization's Intellectual Capital.** Business managers need to expend efforts in increasing the value of intangible assets in the organization. This is achieved by building up company value by exalting human capital, as well as structural and relationship capital in the organization.
- **Institute a New Policy of People Management.** It is of over-riding importance that managers endeavour to define systems and procedures, not to penalize errors, but to allow the free expression and innovation of all individuals in the organization on the journey of discovery.

Managing Knowledge and Measuring Intellectual Capital go hand in hand. There is no value generation without a high level of organizational learning and without alterations in behaviour in people and organizations. As Karl Marx said: *"The philosophers have only interpreted the world, in various ways. The point, however, is to change it."*