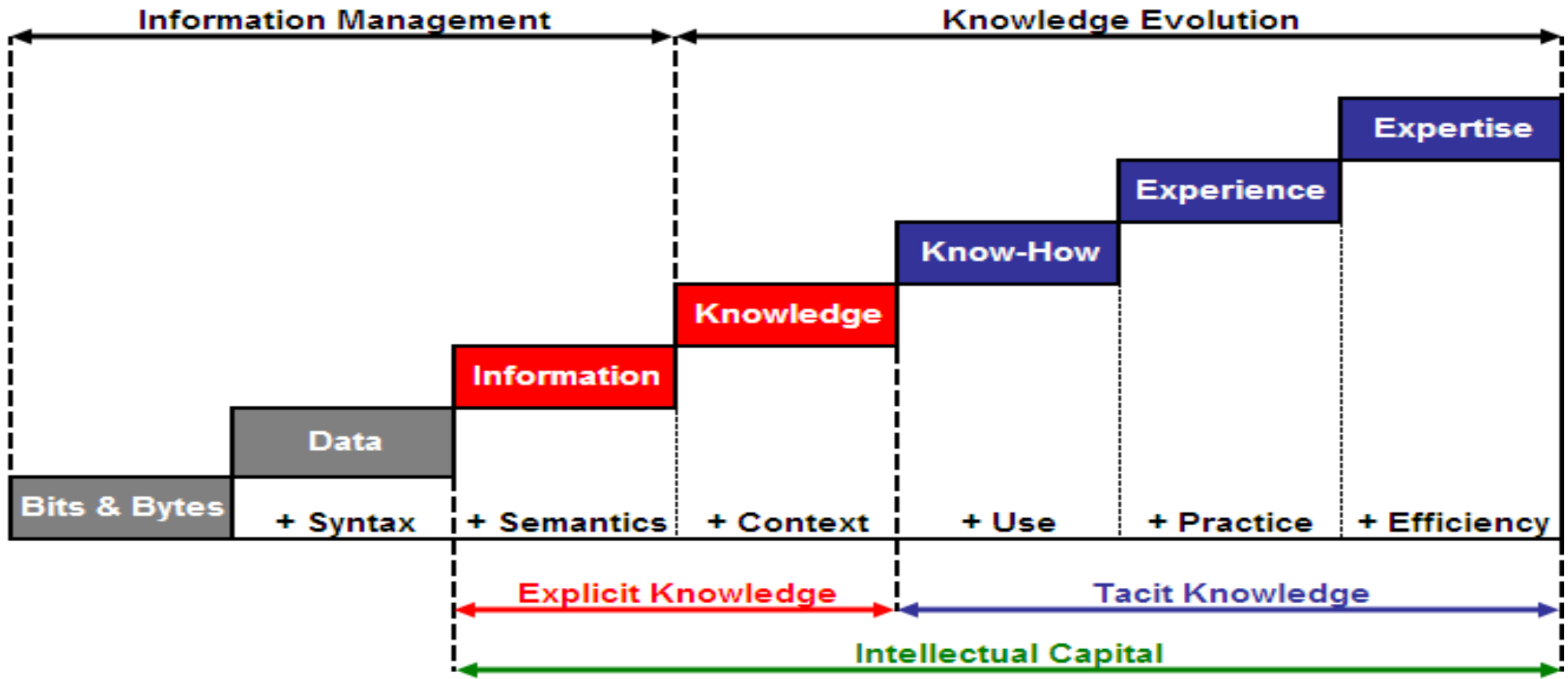


Intellectual Capital in the world of knowledge workers

Călin Rangu

President of the Institute of Financial Studies (ISF)

Knowledge vs Intellectual Capital

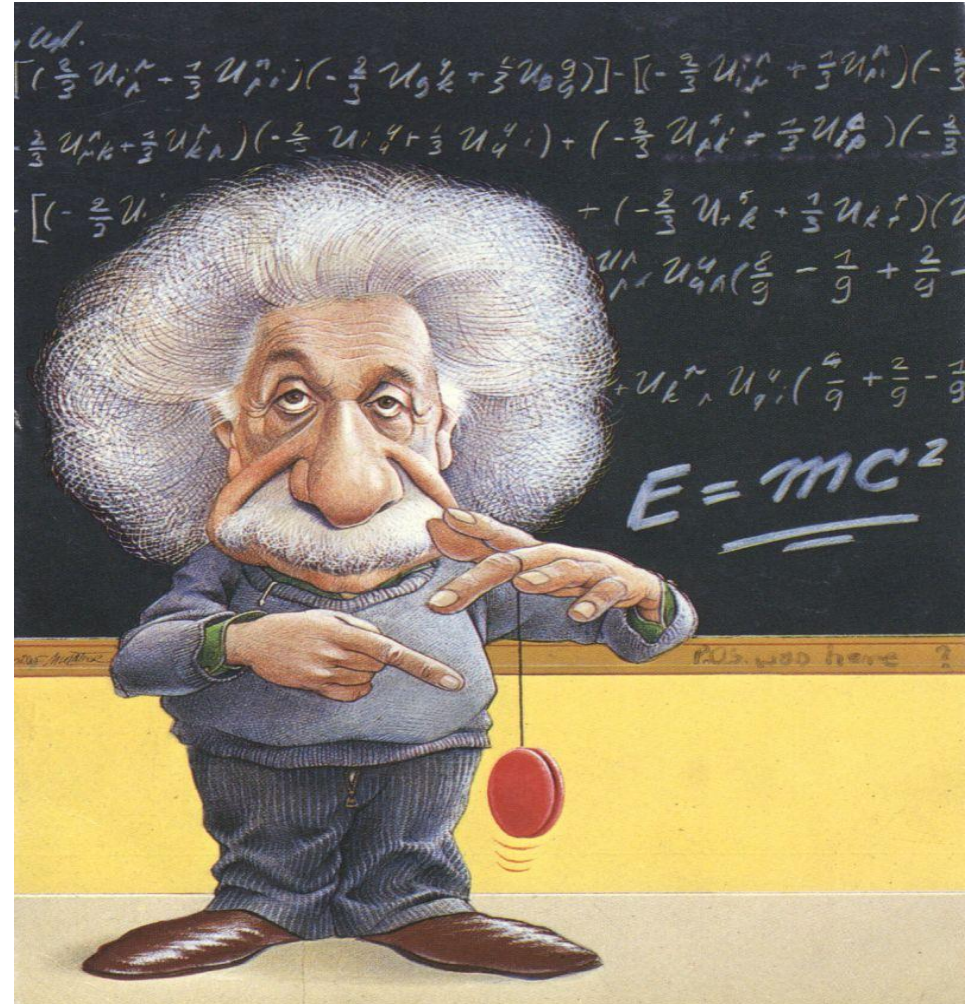


Knowledge Building Process & Intellectual Capital

What Is Intellectual Capital?

(some illustrations, not definitions)

- ... the sum of an organization's patents, processes, employees' skills, technologies, information about customers and suppliers, and old-fashioned experience ...
- ... an individual's accumulated knowledge and know-how [that] is the source of innovation and regeneration ...
- ... ability, skill, and expertise ... embedded in human brains ...
- ... knowledge that exists in an organization that can be used to create differential advantage ...
(Hugh MacDonald, ICL)
- ... intellectual capital that has been formalized, captured, and leveraged to produce a higher-valued asset ...
(Klein and Prusak)



Intellectual Capital Calculation

Building Blocks – Elements/Phenomena



	Human Capital	Customer Capital	Structural Capital (Organizational Capital)
GUTHRIE (2001)	<ul style="list-style-type: none"> • Know-how; • Education; • Vocational qualification; • Work-related knowledge; • Work-related competencies; • Entrepreneurial spirit • Innovativeness, • Proactive and reactive abilities • changeability 	<ul style="list-style-type: none"> • Brands • Customers • Customer loyalty • Company names • Distribution channels • Business Collaborations • Licensing agreements • Favourable contracts • Franchising agreements 	<ul style="list-style-type: none"> • Patents • Copyrights • Trademarks • Management Philosophy • Corporate Culture • Management processes • Information Systems • Networking Systems • Financial Relations

Source: Adopted from Guthrie (2001), p.35



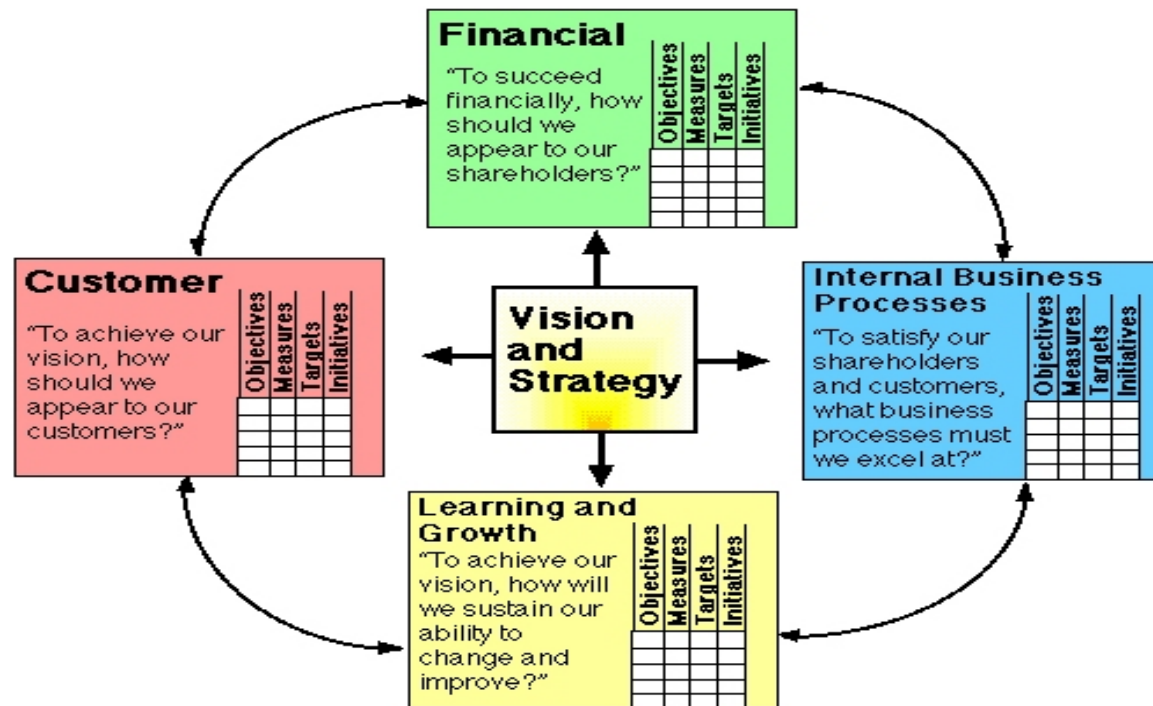
THE MOST VALUABLE CORPORATE BRANDS
[CLICK HERE FOR IN PICTURES](#)

The Four Approaches for Measuring Intangibles

- Direct Intellectual Capital methods (DIC): Estimate the \$-value of intangible assets by identifying its various components. Once these components are identified, they can be directly evaluated, either individually or as an aggregated coefficient.
- Market Capitalization Methods (MCM): Calculate the difference between a company's market capitalization and its stockholders' equity as the value of its intellectual capital or intangible assets.
- Return on Assets methods (ROA): Average pre-tax earnings of a company for a period of time are divided by the average tangible assets of the company. The result is a company ROA that is then compared with its industry average. The difference is multiplied by the company's average tangible assets to calculate an average annual earnings from the intangibles. Dividing the above-average earnings by the company's average cost of capital or an interest rate, one can derive an estimate of the value of its intangible assets or intellectual capital

The Four Approaches for Measuring Intangibles

- Scorecard Methods (SC): The various components of intangible assets or intellectual capital are indentified and indicators and indices are generated and reported in scorecards or as graphs.



(Financial) Balance Sheet



ABC COMPANY Closing Date Balance Sheet			
Assets		Liabilities and Capital	
Current Assets:		Current Liabilities:	
Cash	0.00	Accounts Payable	0.00
Short-term Investments	0.00	Sales Taxes Payable	0.00
Accounts Receivable	0.00	Payroll Taxes Payable	0.00
Less: Reserve for Bad Debts	0.00	Accrued Wages Payable	0.00
Work in Progress	0.00	Accrued Dividends Payable	0.00
Inventories	0.00	Income Taxes Payable	0.00
Prepaid Expenses	0.00	Unearned Revenues	0.00
Notes Receivable	0.00	Short-Term Notes Payable	0.00
Other:	0.00	Short-Term Bank Loan Payable	0.00
		Other:	0.00
Total Current Assets	0.00	Total Current Liabilities	0.00
Fixed Assets:		Long-Term Liabilities:	
Vehicles	0.00	Long-Term Notes Payable	0.00
Less: Accumulated Depreci	0.00	Mortgage Payable	0.00
Furniture and Fixtures	0.00	Other:	0.00
Less: Accumulated Depreci	0.00		
Equipment	0.00		
Less: Accumulated Depreci	0.00		
Leasehold Improvemei	0.00		
Less: Accumulated Depreci	0.00		
Buildings	0.00		
Less: Accumulated Depreci	0.00		
Land	0.00		
Long-term Investments	0.00		
Total Fixed Assets	0.00	Total Long-Term Liabilities	0.00
Total Current and Fixed Assets	0.00	Total Liabilities	0.00
Other Assets:		Capital:	
Goodwill	0.00	Owner's Equity	0.00
		Accumulated Retained Earnings	0.00
		Current Net Profit (Loss)	0.00
		Less: Dividend	0.00
Total Other Assets	0.00	Total Capital	0.00
TOTAL ASSETS	0.00	TOTAL LIABILITIES AND CAPITAL	0.00

Intellectual Capital Balance Sheet

ABC COMPANY			
Closing Date			
Intellectual Capital Balance Sheet			
Intellectual Capital Assets		Intellectual Capital Liabilities and Equity	
Structural Capital:		Intellectual Capital Liabilities:	
Technological Capital	0.00	Tacit Internal Intellectual Capital Assets	0.00
Organisational Capital	0.00	Tacit External Intellectual Capital Assets	0.00
Total Structural Capital Assets	0.00	Total Intellectual Capital Liabilities	0.00
Human Capital:		Intellectual Capital Equity:	
Total Human Capital Assets	0.00	Explicit Internal Intellectual Capital Assets	0.00
Total Internal Intellectual Capital Assets	0.00	Explicit External Intellectual Capital Assets	0.00
Relational Capital:		Total Intellectual Capital Equity	0.00
Business Capital	0.00		
Social Capital	0.00		
Total External Intellectual Capital Assets	0.00		
TOTAL IC ASSETS	0.00	TOTAL IC LIABILITIES AND EQUITY	0.00

- Assets are either Internal or External and vary from highly structured to not structured at all
- Assets are either owned by the company (explicit) or borrowed from 3rd parties: staff, customers, alliances, partners, public authorities



IC balance sheet: follows the structure logic of the financial BS

		Closing Date		Balance Sheet		
		Assets		Liabilities and Capital		
LIQUIDITY ↑ HIGH ↓ LOW	<i>Current Assets:</i>			<i>Current Liabilities:</i>		
		<i>Total Current Assets</i>	0.00		<i>Total Current Liabilities</i>	0.00
	<i>Fixed Assets:</i>			<i>Long-Term Liabilities:</i>		
		<i>Total Fixed Assets</i>	0.00		<i>Total Long-Term Liabilities</i>	0.00
	Total Current and Fixed Assets		0.00	Total Liabilities		0.00
	<i>Other Assets:</i>			<i>Capital:</i>		
	Total Other Assets	0.00		Total Capital	0.00	
TOTAL ASSETS		0.00	TOTAL LIABILITIES AND CAPITAL		0.00	
ABC COMPANY						
Closing Date						
		Intellectual Capital Assets		Intellectual Capital Liabilities and Equity		
STRUCTURED ↑ HIGH ↓ LOW	<i>Structural Capital:</i>			<i>Intellectual Capital Liabilities:</i>		
		Technological Capital	0.00		Tacit Internal Intellectual Capital Assets	0.00
		Organisational Capital	0.00		Tacit External Intellectual Capital Assets	0.00
	<i>Total Structural Capital Assets</i>		0.00	Total Intellectual Capital Liabilities		0.00
	<i>Human Capital:</i>			<i>Intellectual Capital Equity:</i>		
		<i>Total Human Capital Assets</i>	0.00		Explicit Internal Intellectual Capital Assets	0.00
Total Internal Intellectual Capital Assets		0.00		Explicit External Intellectual Capital Assets	0.00	
<i>Relational Capital:</i>			Total Intellectual Capital Equity		0.00	
	Business Capital	0.00				
	Social Capital	0.00				
Total External Intellectual Capital Assets		0.00				
TOTAL IC ASSETS		0.00	TOTAL IC LIABILITIES AND EQUITY		0.00	

Consolidated Balance Sheet

ABC COMPANY Closing Date			
Consolidated Financial & Intellectual Capital Balance Sheet			
Financial & Intellectual Capital Assets		Financial & Intellectual Capital Liabilities and Equity	
Current Assets:		Financial Liabilities:	
<i>Total Current Assets</i>	0.00	<i>Total Financial Liabilities</i>	0.00
Fixed Assets:		<i>Total Financial & Intellectual Capital Liabilities</i>	
<i>Total Fixed Assets</i>	0.00	Intellectual Capital Liabilities:	
Total Current and Fixed Assets	0.00	<i>Total Intellectual Capital Liabilities</i>	0.00
Other Assets:		Intellectual Capital Equity:	
Internal Intellectual Capital Assets	0.00	<i>Total Intellectual Capital Equity</i>	0.00
External Intellectual Capital Assets	0.00	Financial Equity:	
Total Intellectual Capital Assets	0.00	<i>Total (Financial) Equity</i>	0.00
TOTAL ASSETS	0.00	Total Financial & Intellectual Capital Equity	0.00
		TOTAL LIABILITIES AND EQUITY	0.00

This is what a buyer would probable pay cash for the company.
This is what the buyer would hold back and pay over a period of time.

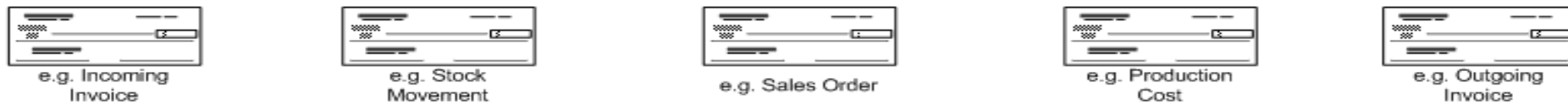
- Consolidated Balance Sheet shows the total value of the enterprise, combining financial with IC elements
- The assets side gives a clear insight into the relative values of ALL assets, offering THE ultimate management tool to managers
- The liabilities side shows how assets are ‘financed’, i.e. ‘who owns’ the assets
- Balance Sheet analytics can be developed in line with BS analysis concepts which already exist for the ‘classical’ BS

The fundamentals of accounting

Business Processes



Accountable Events



Accounting Transactions



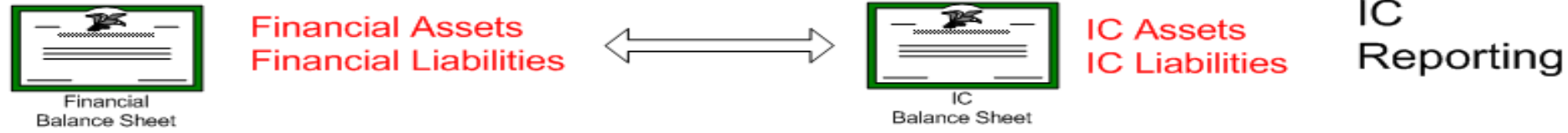
Accounting Rules
Valuation Rules
Chart of Accounts

Financial Reporting



Assets
Liabilities

IC Accounting: the same principles apply



Accounting Transactions



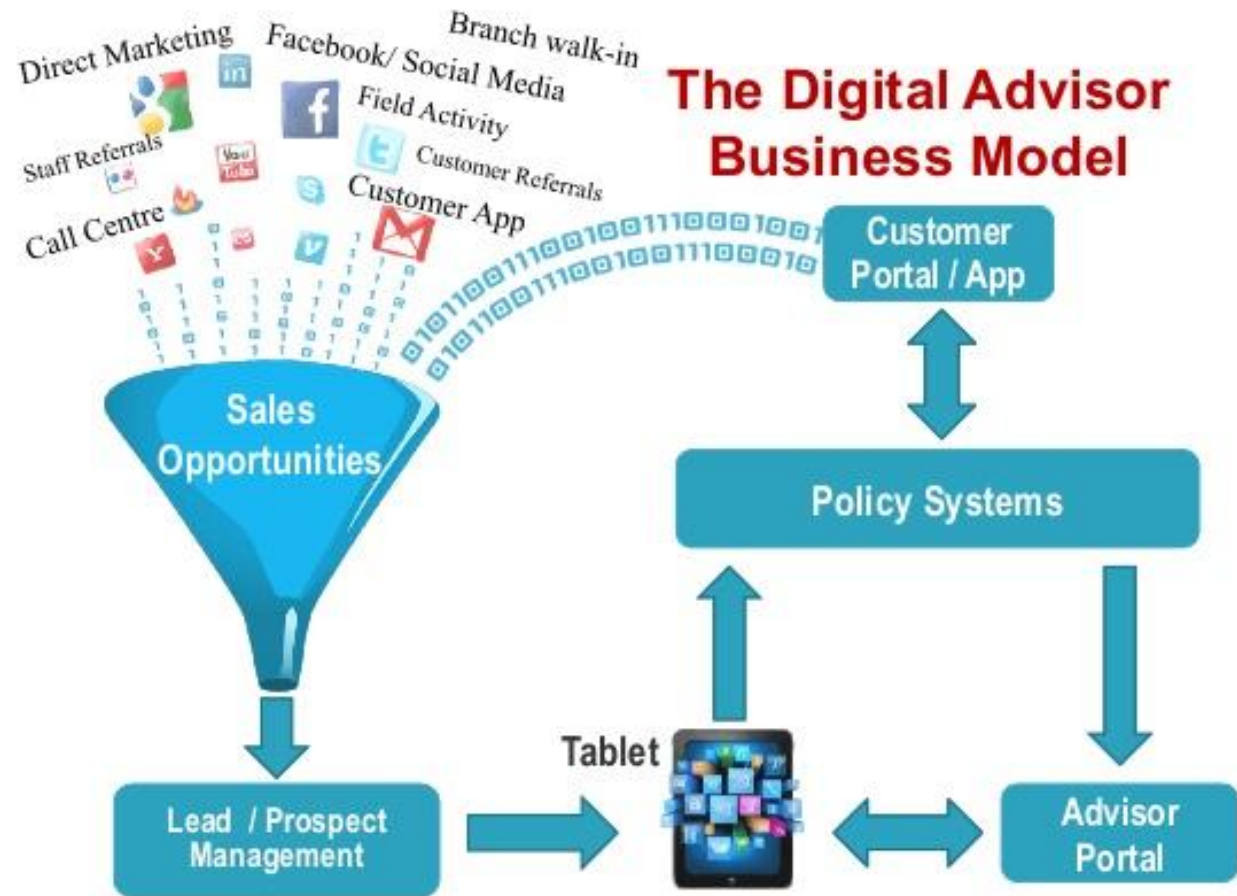
Accountable Events



Business Processes



Digital Maturity

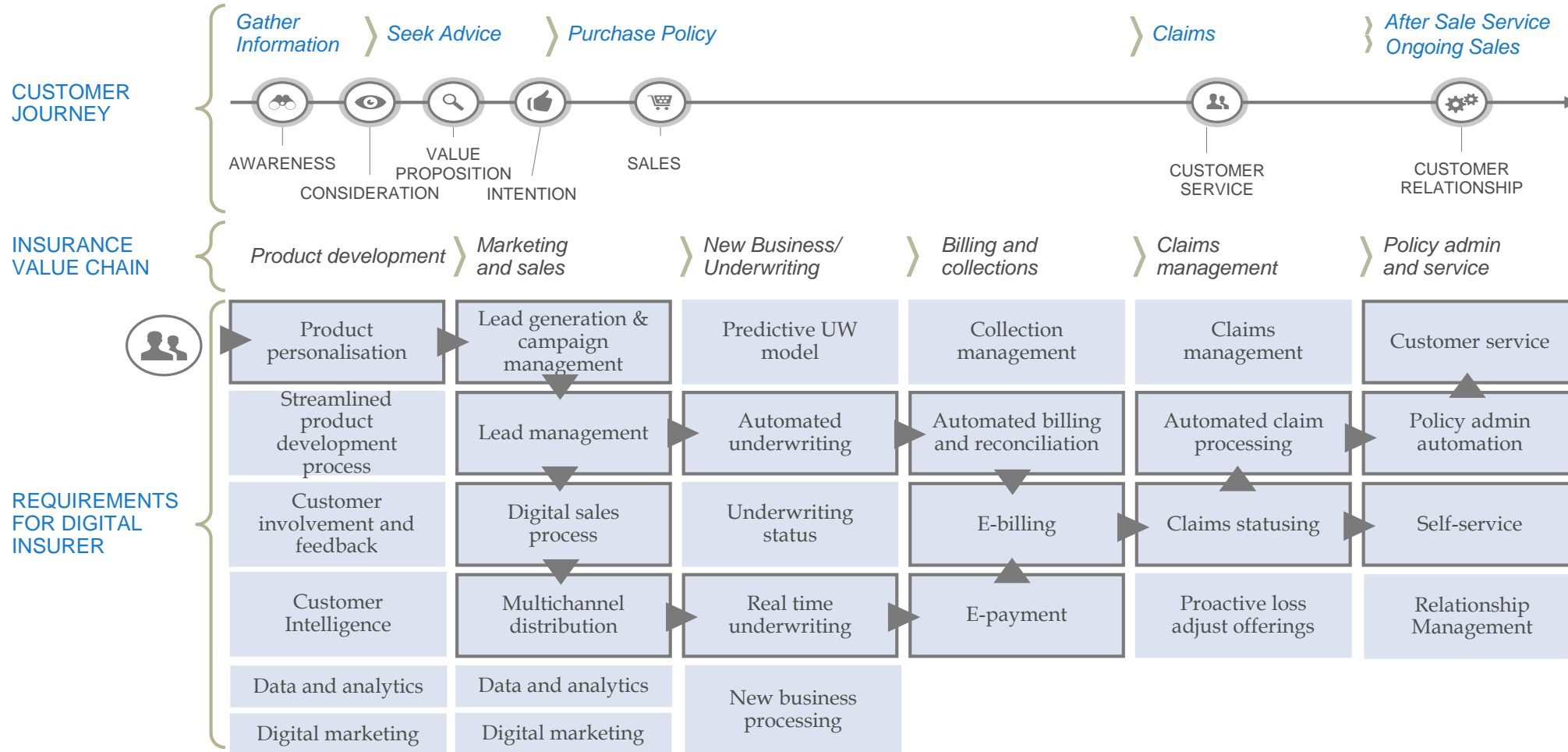


The Digital Advisor Business Model

The level of digital maturity should be aligned across the customer journey to yield the highest benefits

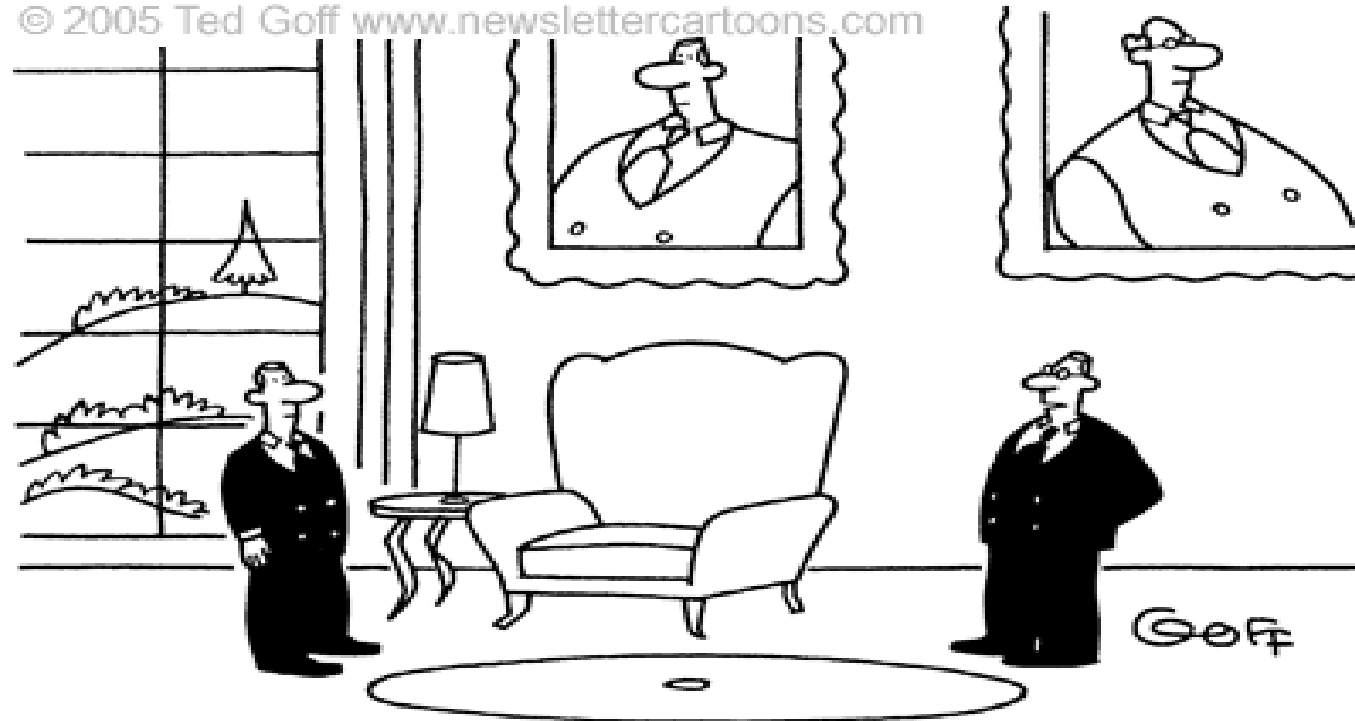
Alignment of Capabilities

Digital enablement will drive business growth, but has to be equally applied to the entire customer journey as opposed to fragmented capabilities.



Challenge!

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**“Your job will be to look at things
in a new way and translate them
to the old way for me.”**

THANK YOU FOR YOUR ATTENTION!

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