

INTELLECTUAL CAPITAL

Realizing Your Company's True Value by
Finding Its Hidden Brainpower

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MAIN IDEA

Intellectual capital represents the difference between a company's balance sheet and its market value. It is frequently referred to as indirect assets, intangibles or goodwill, and consists of organizational knowledge, customer loyalty and satisfaction, a company's ability to innovate and bring new products to market, employee morale and skills, patents, trademarks and a number of other factors.

The fact that traditional accounting methods fail to accurately capture intellectual property assets also results in a significant management question: If intellectual capital can have such a large impact on a company's valuation, how can management decisions be consistently made which will enhance the company's intellectual capital base rather than detract from it.

The absence of established accounting systems for intellectual capital means that companies need to take the initiative and develop their own systems to conceptualize the company's intellectual capital. Once this framework has been developed, management decisions can then be evaluated on the basis of whether or not additional intellectual capital was created.

"As an index, book value is dead as a doornail, an artifact of the Industrial Age. We live in the Information Age, of course, though remarkably few people have come to terms with that fact. Failure to understand the declining relevance of book value - and the hard assets that form the ratio's numerator - is proof of this.

Human intelligence and intellectual resources are now any company's most valuable assets."

- Rich Karlgaard, editor, Forbes ASAP

Part 1 - The Concept of Intellectual Capital Page 2

The real value of modern corporations cannot be determined by traditional accounting methods because these measures fail to accurately allow for a company's intangible assets - its intellectual capital (IC) component.

Therefore, to maximize the creation of additional corporate value, managers need to focus strategic resources on the efficient and cost-effective creation of new intellectual capital. This initiative, if successful, will ultimately have a greater flow-on effect into the company's market valuation than any other approach.

Part 2 - A Corporate Model for Market Value Which Incorporates Intellectual Capital Pages 3 - 4

Three models showing the interrelationship between intellectual capital, financial capital and the company's market value.

Part 3 - Calculating and Managing a Company's Financial and Intellectual Capital Capital Base Pages 5 - 7

If a company's future is highly dependent on IC-based factors which traditional accounting systems fail to capture, how can an effective management system be developed to maximize the creation of additional intellectual capital?

To manage effectively, a broader information system must be developed which will be company specific and which will address company operations in these key areas. Such a system must incorporate all elements which drive the company's market value, including:

- Financial Capital
- Human Capital
- Customer Capital
- Innovation Capital
- Process Capital

Part 4 - The Future Role of Intellectual Capital Page 8

The idea of measuring and comparing intellectual capital within a company is revolutionary rather than evolutionary. It has the potential to change the way businesses are organized and managed, and to alter the flow of investment in individual companies and the broader community as a whole.

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