

Measuring Intellectual Assets

Brenda Massetti
St. John's University
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Intellectual assets are intellectual materials that have been formalized, captured, and leveraged to produce higher value for the firm. As organizations recognize more fully the role these assets play in marketplace success, efforts to more accurately identify and value them are becoming a top priority. For example, James Brian Quinn estimates that information comprises 75% of the value added in manufacturing today. Moreover, Levi Straus estimates that four out of every five dollars it spends to produce a pair of jeans goes to information, not to making, dying, cutting, and sewing denim.

While most managers readily recognize that their most important organizational investments are in talents, capabilities, skills, and ideas, often they must rely on surrogate, tangible-resource measures such as people, capital, inventory, and money for performance decisions. Historically, the intangibility of intellectual assets has made them difficult to measure and manage. For example, the accounting concept of "goodwill" is simply the amount left after deducting measurable costs from the selling price. It is not precisely attributable to specific assets. Moreover, using the data hierarchy to categorize organizational assets into data (facts), information (contexts), knowledge (conclusions), and wisdom (generalizations), offers little in the way of standard valuation because one person's knowledge is often another person's data, information, or wisdom. The focus usually winds up on what goes where in the hierarchy rather than on how much value is being derived for the organization.

A more organizationally appealing approach, recently introduced by Thomas Stewart in his book *Intellectual Capital*, is to classify intellectual assets into 1) a semi-permanent body of tacit and explicit knowledge about a task, person, or organization; and, 2) the capital resources (human, structural, and relational) that augment this body of knowledge. This classification scheme, if applied properly, produces intellectual asset measures that can be targeted for research and investment.

First, by focusing on knowledge as a semi-permanent asset, managers are reminded that not only is knowledge about a task, person, or organization transitory, but it is also present in varying degrees of accessibility. In specific, explicit knowledge is that found in manuals, books and databases while tacit knowledge exists in a person's mind-sets, intuitions, and rules of thumb. While explicit knowledge is often the more accessible and understandable, tacit knowledge is frequently the more valuable. For example, a job description from an organization manual is accessible, relatively easy to understand, and not worth very much over the course of time. However, the experience and "know-how" gained by an employee performing that job over the course of 20 years is both difficult to communicate and priceless to the organization. Hence, one relevant knowledge measure

under this classification scheme would be tracking the rate at which a manager makes tacit knowledge explicit in order to share it with other employees.

Second, categorizing capital resources according to how well they augment an organization's body of knowledge better supports the organization's knowledge needs. In specific, human capital represents the capabilities of the individuals required to provide solutions to customers, not the number and types of people employed. By measuring capabilities, the organization can more readily identify and rectify strategic performance gaps. Structural Capital represents the mechanisms that transform an individual's knowledge into company property. Its role is to gather, test, organize, refine and distribute existing knowledge. The challenge here is to shift from learning how to get by with little information to learning how to take economic advantage of increasing amounts of information. Relationship capital is the value of the firm's ongoing relations with the people or organizations with which it does business. For example, because acquiring a new customer generally costs 7-10 time more than retaining an existing one, effective use of this asset would emphasize customer share over market share.

For a variety of firms, the results of identifying and applying better ways to manage intellectual assets have been competitive advantages that are more sustainable.
