Intellectual capital: who counts, controls?

Robin Roslender, University of Stirling
robin.roslender@stir.ac.uk

Robin Fincham, University of Stirling
rf3@stir.ac.uk

Stream #7: Critical Accounting

Intellectual capital and related topics including intangibles, innovation and knowledge are rapidly climbing the management research agenda. Their significance lies in the contribution these assets make to sustained value creation, a central mantra within contemporary business strategy. A premium has been placed on the successful management of such assets, and within this programme the accountancy profession has found itself challenged to devise effective means of counting and controlling them. It was to be expected that the majority of developments to date within intellectual capital accounting would exhibit many of the unsavoury characteristics that critical accounting researchers associate with the extension of the prevailing accounting calculus into new fields. Nevertheless, in some recent developments there may be indications of how a more progressive approach, that of Intellectual Capital Self-Accounts, may be fashioned. In this way, the emergence of intellectual capital accounting may provide an important opportunity to return to the task of accounting for labour. This aspect of the critical accounting project that has become less evident as researchers have focused on identifying a range of "other voices" who should be encouraged to provide their own accounts "from below".

The principal motivation for the development of intellectual capital accounting in the mid 1990s was to explain the gap that existed between the market and book values of many companies. In some instances, particularly companies in which intangibles, innovation and knowledge were very extensive, the former values were ten or fifteen times (or more) than the latter. This "hidden value" existed to be accounted for, not least to ensure that its existence did not unduly compromise the operations of the (supposedly efficient) capital markets. The initial approach to the problem was to attempt to decompose intellectual capital into its constituent elements, and then set about the task of valuing these in an incremental fashion. This has given rise to a number of taxonomies of intellectual capital, and to the near universal recognition of its tripartite constitution: human capital: relational capital; and structural capital. Although conscious of some serious difficulties associated with valuing (intangible) assets such as these, the accountancy profession was relieved to see that this approach entailed little more than an extension of the accounting calculus into new fields.

In the Nordic countries, where interest in human resource accounting had persisted long after it had slipped from the North American research agenda, a number of researchers and practitioners soon began to develop a rather different approach to the problem of accounting for intellectual capital. They reasoned that given intellectual capital's close association with the (successful) pursuit of value creation, a more pressing issue to account for was the success with which companies were "growing" their stocks of

intellectual capital. Implicitly it was perceptions about such growth activities that influenced market valuations. Rather than trying to make the financial numbers add up as it were, a more beneficial approach would be to develop some means of accounting for the growth of intellectual capital, and not necessarily employing financial numbers. Two models quickly achieved iconic status: the Skandia Navigator and the Intangible Assets Monitor. Both share extensive similarities with the Balanced Scorecard, a generic performance measurement approach that had evolved separately. All three commend the use of multiple performance measures, a proliferation of non financial information, and a more story-like approach to reporting, whether on intellectual capital or more generally.

The subsequent development of intellectual capital accounting can be viewed as following two models. The European model has increased the extent of reliance on a narrative approach. This is best exemplified in work associated with a Danish government funded project that has resulted in the development and diffusion of a generic Intellectual Capital Statement approach. Here intellectual capital accounting is closely identified with the pursuit of knowledge management, in its "cultural" rather than its "technical" variants, as opposed to financial accounting and reporting. The Danish experience has also been influential in the development of the Meritum *Guidelines* for managing and reporting intangibles. The American model has placed more emphasis on the relationship between intellectual capital accounting and corporate finance. There has been a range of attempts to develop robust "hard" number indicators of intellectual capital that meet the needs of the capital market. The Value Creation Index developed by Cap Gemini Ernst and Young, for example, might be viewed as the intellectual capital accounting complement to Stern Stewart Inc's EVA ® measure. After a brief flirtation with a scorecard model, the Value Creation Scorecard, Lev, now the leading figure in the field, has commended the development of a Knowledge Capital Earnings methodology that promises to provide intangible asset valuations commensurate with the prevailing financial reporting paradigm.

Despite its importance, only a very limited critique of intellectual capital has emerged to date. There is certainly good reason to be concerned about the motivations of many of those who have made influential contributions to the literature. Edvinsson (1997), Skandia's first Director of Intellectual Capital, talks of "the transformation of human capital into structural capital" as "a key role of leadership". Lynn (1998b) asserts that a "major challenge in managing intellectual capital is to transform [transient] human and relational capital into more permanent structural capital." Meer-Kooistra and Zijlstra (2001) identify the serious implications of not accounting for intellectual capital in terms of companies finding difficulty in attracting investment funds on attractive conditions which in turn may "slow growth and erode competitive advantage for companies in particular and for society in general."

An early expression of concern about the managerialist agenda that underpins the development of intellectual capital accounting is provided by Yahklef and Salzer-Morling (2000) who view it as being about turning knowledge into a calculable asset. Invoking the lexicon of Foucauldian critical analysis they talk of "displac(ing) knowledge from the body which it inhabits to the balance sheet, where it is meant to feature as a new type of [intellectual] capital", and "Knowledge is not to be insubordinate and hidden from the scrutinising gaze of any governing instance, otherwise management cannot be held responsible for things lying beyond their immediate gaze and control." Roslender and Fincham (2001) argue that it is necessary to recognise that in the case of intellectual

capital, as elsewhere in accounting, the aphorism that "what gets measured gets managed" priviliges the requirement to ensure continuing management control as the driver of the process of management. They assert that there is no best set of measurement metrics to be identified, and that as a consequence any management driven approach to intellectual capital accounting will result in human capital, the critical constituent of all stocks of intellectual capital, being imprisoned within accounts that are devised by management, and in management's own interests. As a recent paper by Thorbjornsen and Mouritsen (2002) observes, the emergence of intellectual capital and knowledge management "is a problem for management, because suddenly the power of the individual over the central resource in society is beyond the immediate grasp and reach of the manager."

While there is clearly a very strong case for extending the critique of intellectual capital accounting and its knowledge management underpinnings, there is also some value in exploring whether there is anything that is progressive in developments to date. The emergence of a strongly narrative approach to intellectual capital reporting is something that may well possess significant emancipatory potential. Instead of seeking to imprison human capital within the intellectual capital accounts and reports issuing from management, as critical accounting researchers we should be seeking to encourage such employees to develop their own accounts in the sense of stories about involvement within the value creation process. Intellectual Capital Self-Accounts offer themselves as an example of enabling accounting, since it would also be necessary to represent such accounts as providing the opportunity for authors to not only describe their lived workplace experiences but to reflect upon these experiences, both individually and collectively, and to learn from them.

There are reasons to be optimistic about the possibilities of making some progress with this project. Although the very terms intellectual capital and human capital evidence a systematic distortion of the role of labour in the process of value creation, these fractions of the labour force increasingly recognise their centrality to that process. Moreover, in many sites of the knowledge economy the distinction between management and labour is, of necessity, being dismantled as knowledge management is recognised to be most effective when enrolled as a facilitative as opposed to a disciplinary technology. Similarly, some of the information and communications technologies commonly associated with knowledge management actively encourage interaction between organisational participants. In such environments it may not prove too difficult to persuade people to begin to write and talk about their own experiences in an emancipatory way. Beyond this there may be benefits to be gained from using some of the narratives that emerge to enhance more conventional forms of intellectual capital reporting. Finally, it would seem appropriate to consider whether the Intellectual Capital Self-Accounts envisaged here qualify as a means to the promotion of communicative action as conceptualised by Habermas.

References

Edvinsson, L. (1997), "Developing intellectual capital at Skandia", *Long Range Planning*, 30(3), 366-73.

Fincham, R. and Roslender, R. (2002), “Intellectual capital accounting as management fashion: a review and critique”, mimeo, University of Stirling.

Lynn, B. (1998a), *The Management of Intellectual capital: the Issues and the Practices* , Hamilton ON: Society of Management Accountants of Canada.

Mouritsen, J., Larsen, H.T. and Bukh, P.N.D. (2001b), “Intellectual capital and the ‘capable firm’: narrating, visualising and numbering for managing knowledge”, *Accounting, Organizations and Society* , 26(7/8), pp735-62.

Mouritsen, J., Larsen, H.T. and Bukh, P.N.D. (2002), “Developing and managing knowledge through intellectual capital statements”, *Journal of Intellectual Capital*, 3(1), pp10-29.

Roslender, R. (1996), “Critical accounting and the labour of accountants”, *Critical Perspectives on Accounting*, 7(4), pp461-84.

Roslender, R. and Dillard, J.(2001), “Reflections on the interdisciplinary perspectives on accounting project”, forthcoming in *Critical Perspectives on Accounting*.

Roslender, R. and Fincham, R. (2001), “Thinking critically about intellectual capital accounting”, *Accounting, Auditing and Accountability Journal*, 14(4), pp383-98.

Thorbjornsen, S. and Mouritsen, J. (2002), “The individual employee in the IC statement”, *Proceedings of the Transparent Enterprise: the Value of Intangibles Conference*, Madrid.

Van der Meer-Koistra, J. and Zijlstra, S.M. (2001), “Reporting on intellectual capital”, *Accounting, Auditing and Accountability Journal*, 14(4), pp456-76.

Yakhelf, A. and Salzer-Morling. M. (2000), “Intellectual capital: managing by numbers”, in C.Pritchard, R. Hull, M.Chumar and H. Willmott (eds): *Managing Knowledge*, Basingstoke: Macmillan Press.