

Chapter 1

The Intellectual Capital Navigator as a Strategic Tool

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ABSTRACT

This chapter outlines a grounded and proven tool for evaluating the effectiveness with which firms deploy the resources at their disposal. The chapter draws on the resource-based view of the firm literature as well as the intellectual capital literature combined with systems theory and matrix algebra to develop a theoretical lens and a practical tool for the optimization of the effectiveness by which the firm deploys its resources. The resources covered in the chapter are both normal monetary and physical resources as well as relational, organisational, and human intellectual capital resources capturing both the tangible and intangible aspects of these resources. The chapter takes a step-by-step approach and illustrates each step as well as providing guidelines for how to interpret the results. The practicality and validity of the tools have been proven through applications in more than one thousand firms.

INTRODUCTION

One of the key questions that need to be addressed both from a managerial and operational point of view as well as from a strategic analysis point of view is “are the firm’s resources put to use in such a way that I have maximised the firm’s value creating potential? In this chapter we will outline a way to answer this important question.

A Resource Taxonomy

This requires us to create a language with which to describe the different resources. The author favours the subdivision into five different categories based on economic behaviour. These are:

1. **Physical:** All resources that holds a physical form and mass e.g. machines, bricks, tools, etc.
2. **Monetary:** All resources of a monetary or monetarily equivalent nature e.g. cash, bonds, shares etc.
3. **Relational:** All relationships that the organization have with, e.g., customers, consumers, intermediaries, representatives, suppliers, partners, owners, lenders, and the like
4. **Organizational:** The intuitive definition was best articulated by Leif Edvinsson as “all those things that remain in the organization when the employees have left the building but that you cannot find in the balance sheet”. This includes resources like brands,

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intellectual property, processes, systems, organizational structures, information (on paper or in data bases), and all other results of human endeavour that takes this form.

5. **Human:** All the attributes that relate to individuals as resources for the company and under the requirement that it cannot be replaced by machines or written down on a piece of paper. This includes resources such as competence, attitude, skill, tacit knowledge, personal networks, and the like.

Some characteristics of these resources are summarised in Table 1.

There is a further distinction worth noting: that between resource type and whether a resource is tangible or intangible. Whether a resource is

tangible or intangible represents a debate about the recognisability of the resource while an argument about whether an resource is a traditional economic resource (monetary or physical) or an intellectual capital resource (relational, organizational or human) represents a debate about the form and ultimately the economic behaviour of the resource. This is not a semantic distinction, the argument that intangibles and intellectual capital resources are not the same thing is self-evident. There are plenty of intellectual capital resources that have a tangible expression. Likewise, there are plenty of traditional economic resources that have intangible expressions. Table 2 separates resource type from the issue of accounting recognisability with some illustrative examples.

Table 1. Resource characteristics after Roos et al., 2005

	Monetary Resources	Physical Resources	Relational Resources	Organizational Resources	Human Resources
Description	Financial resources that take the form of cash or assets (such as marketable securities) that can easily be converted to pure cash	Normally what would be found under the heading of plant & equipment on the balance sheet but also assets that have physical characteristics (for e.g., any form of physical inventory or for a beer bottle: the paper that the label is printed on, the metal cap, the glass bottle itself as well as the physical liquid that fills it)	Any and all stakeholders that influence the operations of the organization be they customers, suppliers, donors or local government and pressure groups or the like.	Resources that the organization has developed or procured and that the organization legally owns that are not physical in nature, e.g., brands, image, reputation, IP, processes, routines, systems, structures and information in data bases or on paper	Resources that are unique to the human being such as tacit knowledge, creativity, decisiveness, ability, attitude, motivation, etc.
Owned and Controlled by	The organization	The organization	The other party (from both parties point of view) and as a consequence neither	The organization	The individual
Economic behaviour	Decreasing marginal returns	Decreasing marginal returns	Network economics	Network economics	Increasing marginal returns
Additive	Yes	Yes	No	No	No
Information Asymmetry	Low	Low	High	High	High
Rivalry Resource	Yes	Yes	No	No	No
Excludability	Yes	Yes	No	Partial	No

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