

Chapter XIV

The Building of Intellectual Capital Statements in Multinationals: Challenges for the Future

Miltiadis D. Lytras

University of Patras, Greece

Patricia Ordóñez de Pablos

University of Oviedo, Spain

ABSTRACT

Multinational companies (MNCs) are facing important challenges within the current economic context. Rapid technological changes, the globalization of the economy, the existence of increasingly demanding consumers are, among other factors, the origin of the difficulties involved in achieving and sustaining a competitive advantage in the long term. One of the keys for overcoming these difficulties is to manage knowledge-based resources appropriately. However, in order to be able to manage these resources, the multinationals need to know, with complete transparency, just what these resources are, and this is achieved by quantifying them. The quantification of knowledge-based resources and the preparation of intellectual capital statements represent two strategic challenges for the MNCs.

INTRODUCTION

The resource-based view of the firm and the literature on knowledge management and organizational learning state that knowledge-based resources are a source of sustained competitive advantage due to their distinctive characteristics:

causal ambiguity, social complexity, organizational path dependence, time compression diseconomies, and idiosyncratic value (Barney, 2001; Dierickx & Cool, 1989; Mahoney, 1995; Ordóñez de Pablos, & Peteraf, 2004, 2005; Peteraf, 1993; Reed & DeFillippi, 1990; Wernerfelt, 1984; 1995). These special features of knowledge-based

resources require that the organization develops new strategies to manage them.

Knowledge management and intellectual capital literature respectively provide both a conceptual framework and specific tools for the management of intraorganizational and interorganizational knowledge flows in multinational companies (MNCs). Multinational companies consider that the transfer of knowledge flows at the international level represents a source of opportunities and risks.

This chapter has two basic aims. First, it analyzes the complex dynamics of knowledge flow transfers in multinational firms. Second, it addresses the measuring and reporting of knowledge-based resources in MNCs.

INTELLECTUAL CAPITAL

Concept and Constructs

Managing knowledge-based resources is not a new problem, and there have been other theories that have tried to tackle it. As Roos et al. (1998) state, intellectual capital is the latest development in this line of research. In particular, the theoretical roots of intellectual capital come from two different streams of research: strategy and measurement. While the first stream studies knowledge management—knowledge creation, acquisition, diffusion, capitalization, conversion, transfer, and storage—the second stream of research focuses on the measuring of intellectual capital. This stream has advanced towards the building of *intellectual capital statements* and the development of international standards on intellectual capital measuring and reporting. Now we are going to focus on the second stream of research: measuring and reporting intellectual capital (Lytras & Pouloudi, 2006).

A broad definition of intellectual capital states it is the difference between the company's market value and its book value. Knowledge-

based resources that contribute to the sustained competitive advantage of the firm form intellectual capital. However these resources are not registered in the financial accounts. In contrast with tangible resources, the payoff and value of investments in a firm's current stock of knowledge (intellectual capital) will not appear in the financial accounting until later on. For all these reasons, knowledge-based resources must now be identified, dissected, and analyzed.

An accepted idea in the field is that intellectual capital is formed by three components or subconstructs: human capital (HC), structural capital (SC), and relational capital (RC) (Skandia, 1996).

Human capital reflects the set of knowledge, capabilities, skills, and experience of the employees of the company. It represents the accumulated value of investments in employee training, competence, and the future. It also includes an even more intangible element: employee motivation (Becker, 1964; Skandia, 1996).

Structural capital represents organizational knowledge that has moved from individuals or from the relationships between individuals to be embedded in organizational structures, such as organizational routines, policies, culture, or procedures. Generally, structural capital is divided into technological capital and organizational capital. Technological capital represents industrial and technical knowledge, such as results from R&D and process engineering. Organizational capital includes all aspects that are related to the organization of the company and its decision-making process, for example organizational culture, organizational structure design, coordination mechanisms, organizational routines, planning and control systems, among others (Bontis, Chong, & Richardson, 2000; Skandia, 1996).

Finally, relational capital reflects the value of organizational relationships. In general, it has been accepted that these relationships were mainly focused on customers, suppliers, shareholders, and the administrations, among others, without

10 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/chapter/building-intellectual-capital-statements-multinationals/29786

Related Content

Sharing Knowledge When it Cannot be Made Explicit: The Case of Product Lifecycle Management Systems

Pierre-Emmanuel Arduin, Julien Le Duigou, Marie-Hélène Abeland Benoît Eynard (2018). *International Journal of Knowledge-Based Organizations* (pp. 14-28).

www.irma-international.org/article/sharing-knowledge-when-it-cannot-be-made-explicit/212566

Understanding Tacit Knowledge in Decision Making

Terry Mortierand David Anderson (2017). *Handbook of Research on Tacit Knowledge Management for Organizational Success* (pp. 418-435).

www.irma-international.org/chapter/understanding-tacit-knowledge-in-decision-making/181361

Towards a Business-Driven Process Model for Knowledge Security Risk Management: Making Sense of Knowledge Risks

Ilona Ilvonen, Jari J. Jussilaand Hannu Kärkkäinen (2015). *International Journal of Knowledge Management* (pp. 1-18).

www.irma-international.org/article/towards-a-business-driven-process-model-for-knowledge-security-risk-management/149943

Merging Controlled Vocabularies for More Efficient Subject-Based IR Systems

Ioannis Papadakisand Konstantinos Kyprianos (2011). *International Journal of Knowledge Management* (pp. 74-90).

www.irma-international.org/article/merging-controlled-vocabularies-more-efficient/56366

Productive Development Partnership in Brazil: A Case Study of the Antiretroviral Atazanavir

Carla Silveira, Wanise Barrosoand Marilena C. D. V. Correa (2022). *Handbook of Research on Essential Information Approaches to Aiding Global Health in the One Health Context* (pp. 262-286).

www.irma-international.org/chapter/productive-development-partnership-in-brazil/293105