

What is Intellectual Capital Management (ICM)?

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Intellectual Capital Management links scientific and technology R&D, innovation and intellectual property rights in a holistic management concept. However, it is not just technology oriented companies that will benefit from ICM. The capitalised value (i.e. stock market value) of many global companies such as Coca-Cola is many times above its fixed tangible assets and the only way to explain the difference is ...

What is Intellectual Capital Management¹ (ICM)?

Intellectual Capital is defined as all knowledge within an organisation which has the potential to create value when applied in line with the mission, vision and goals of the organisation. It refers to the *intangible capital* (i.e. other than financial capital) owned by companies:

- Human Capital: This is the value people bring to current operations and future growth,
- Structural Capital: Also referred to as Organisation Capital, this is the supporting infrastructure currently supporting the company and the human capital,
- Network Capital: Also referred to as Customer and Supplier Capital, this is where strength and loyalty of customers, suppliers and other

business relationships will start bringing in cash flow and other factors that will contribute to future growth.

In a nutshell, the Intellectual Capital Management process involves:

- Analyzing existing enterprise knowledge, updating it and recording it as far as possible and making it sharable within the enterprise in order to better fulfill the business plans. This becomes the enterprise's 'structural capital';
- Creating the climate in which knowledge workers can best perform;
- Identifying possible sources of revenue that could be extracted from existing structural capital and developing marketing plans for them;
- Optimising the value creation, extraction and release cycles for new and existing initiatives and
- Assessing risks involved in protecting the enterprise's intellectual assets (or structural capital) and using an effective intellectual property strategy

¹ Original concept developed in the 1990s by early ICM practitioners such as Sullivan, Edvinsson and Sveiby building on earlier work in Japan by Hirojuki Itami.

to minimize business risk. Intellectual Capital Management links scientific and technology R&D, innovation and intellectual property rights in a holistic management concept. However, it is not just technology oriented companies that will benefit from ICM. The capitalised value (i.e. stock market value) of many global companies such as Coca-Cola is many times above its fixed tangible assets and the only way to explain the difference is the intangible assets such as the brand name and business processes owned by the company.

Mainland China is beginning to realise that it has lost many of its historical brands² and has been encouraging the development of “Self-initiated Brand Names” since the inauguration of the 11th Five Year Plan (2007-2012). There have also been many Asian cases, such as “Esprit” of Hong Kong and “Red Bull” of Thailand that made extremely smart use of ICM (but not necessarily a lot of scientific and technology research) to take the great leap from being local brands to become globally recognised brands.

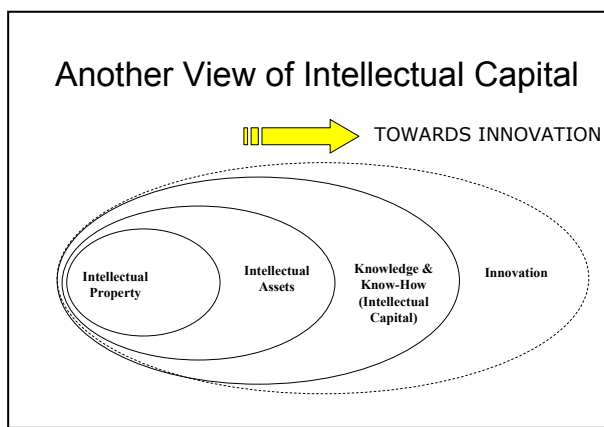
ICM, particularly the creation and use of intellectual property (including registered trade marks from which brands are built) is the *foundation on which knowledge economies of the world are built upon* and

² At one stage, Shanghai Toothpaste leased a 38 year old brand name of Maxam Tooth Paste to Unilever as a form of cooperative joint venture but later reclaimed it in 2001, claiming deliberate attempt made by its business partner to down-play the Maxam brand that results in market share loss.

a fundamental business management tool enterprises need to harness as they move down the road of innovation and creativity.

Knowledge Management (KM)

“Knowledge Management” (KM) is an almost inter-changeable term to “Intellectual Capital Management”: ICM distinguishes itself in that it is purely driven by the aims of the organization and this in fact is the source of its powerful nature. KM is a more widely known term in Hong Kong because of the work of the Hong Kong Knowledge Management Society (founded around 1999 www.hkkms.org). In the earlier days of the introduction of ICM concepts to Hong Kong, KM is commonly associated with and driven as part of “Information Technology” or “Human Resource Management”.



- Intellectual Capital:** Knowledge that can be used to create value.
- Intellectual Asset:** Codified knowledge to be used to create value.
- Intellectual Property:** Legally protected intellectual capital.

Internationally, there are also many schools of thought as regards KM, for example, “Social Network Analysis”, “Information Theory”, “Complexity Approach”, “System Thinking” and

“Capacity Based Approach”. The most useful and dominant school links KM to the conversion of internalised tacit knowledge into explicit codified knowledge, thus allowing successful knowledge sharing (see Ikujiro Nonaka of Japan).

It should be noted that the term “Intellectual Capital Management” (ICM) was introduced by Tom Stewart through an article on Intellectual Capital published in Fortune magazine in October 1994 after it was first mentioned in discussions in his presence. The key creators of the term ICM are: Leif Edvinsson (Sweden), Gordon Petrash (USA), Hubert St. Onge (Canada) and Patrick Sullivan (USA). The first company to adopt a full ICM approach was Skandia (a Swedish Insurance company) in the 1990s under the leadership of Leif Edvinsson. The early pioneers (seven companies that include Dow Chemical, DuPont, Hewlett-Packard, Hughes Space and Communication, Hoffman LaRoche and Skandia) also got together in January 1995 to exchange notes and formed the first ICM Gathering in Berkeley, California, USA. From the “Value Creation” stream as practiced in Europe by ICM gurus such as Leif Edvinsson and the “Value Extraction” stream as practiced by leading American companies a holistic approach now embracing value creation, value extraction and value release has emerged as a powerful business tool which is new and more powerful modern Intellectual Capital Management.

In Hong Kong, KM has yet to establish

itself as a “killer management application”. It is still not perceived as something companies must do for the sake of their own long-term survival. Some say “KM” is for dreamers probably because KM practitioners in Hong Kong have yet to link “Learning” and “Sharing” to the hardnosed business of making a business profit (i.e. the emphasis on “Value Extraction” as practiced by American Companies).

Intellectual Assets Management

Intellectual Assets are the codified (documented) knowledge of companies and organisations. Some refer to Intellectual Assets as the “Structural Capital” of companies. Intellectual Asset Management (IAM) broadly refers to the “Value Extraction” process of ICM practice. The Scottish Intellectual Assets Centre describes IAM as “the process of both capturing and managing knowledge, and fully exploiting it for commercial gain.” In Japan, the ICM practice is known as *Intellectual Asset-Based Management* (Ministry of Economy, Trade and Economy (METI)). ICM practitioners in Asia Pacific should also take note of a term call “*IP Asset Management and Utilization*”, as an initiative that will be driven by the Intellectual Property Rights Experts’ Group of the APEC Committee on Trade and Investment.

The first IC Centre in Asia is the IP Academy of Singapore acting in co-operation with several Government Business Development agencies. Founding members of this very important IC Centre in Asia probably felt that

Intellectual Property ought to be the starting point when IP Academy of Singapore was founded in 2003. The Scottish IA Centre (launched in November 2004) felt that it should be focusing on Intellectual Asset as it is probably more difficult to deliver tangible economic benefits to Scottish enterprises if they were to cast the net too wide at the beginning and include “Value Creation” (or innovation) processes from the very start. However, it should be noted that the practices of the IC Centres of the world are merging and both IC and IA are offered in most IC Centres. Asia Pacific Intellectual Capital Centre (APICC) chose to call itself an IC Centre (instead of an IP Centre or IA Centre) as it envisages that equal emphasis will be put on the “Value Creation” (IC), the “Value Extraction” (IA) and the “Value Release” processes.

IPR Management

Intellectual Property Rights (IPR) include: copyrights, design, patents and trademarks. IPR Management can be seen as the “legal stream” of Intellectual Capital Management (ICM), while services offered by many IC Centres around the world are more closely related to the “Business Stream” of ICM. The exception is the IP Academy of Singapore which has a strong focus on IP aspects. Hong Kong SAR is a unique territory in China as it has a long established rule of law tradition (including IP law dating back to 1873) and it operates an IPR regime that is independent of the legal system in mainland China.

The Intellectual Property Department

(IPD) is the government unit in charge of administering IPR systems and policies at the HKSAR Government level, while the national level organization for China is The State Intellectual Property Office (SIPO) of the People’s Republic of China. Hong Kong has independent trade representation status in many international organizations and is a member of nearly all of them, except the World Intellectual Property Office (WIPO) which, as a United Nations (UN) organization, only recognizes representative offices from sovereign nations. In the case of WIPO, IPD commonly participate as part of the People’s Republic of China’s delegation in cooperation with SIPO and the Ministry of Foreign Affairs of China.

There are many institutes around the world that offer IPR education, for example the WIPO IP Academy. The IP Academy of Singapore was also created on the premises of delivering an IRR management capacity to Singapore. IPR Management Services is commonly offered by law firms that specialise in IPR management. The interests of the “legal stream” and the “business stream” overlap when enterprises wish to exploit the value of their Intellectual Assets (IA).

APICC does not intend to offered legal services that are related to the legal stream of IPR Management, but will work with the legal sector on policy issues relating to how to make best use of Hong Kong’s unique legal systems to help develop the Knowledge Economy in Hong Kong and Mainland China.