1. Intellectual capital: paradoxes and expansions

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1.1 INTRODUCTION

There is no doubt that 'intellectual capital' (IC) is a suggestive concept that has attracted the attention of managers, scholars and policy makers. No wonder. Is it possible not to be enticed by the idea of the knowledge society? Is it possible to be against IC in our society or in our organizations? Is it even possible to have the managerial ambition to decrease IC? The answer is most probably no. But, on the other hand, is it possible not to think of IC as just another fashionable management concept (Kieser, 1997; Ckos, 2004)? Is IC just a two-letter abbreviation following the three-letter generation off-the-shelf solutions (for example TQM, JIT, BPR) marketed at the end of the twentieth century? Although the answer depends on whom you ask, one thing seems to be uncontested: the idea of IC embraces our renewed interest in knowledge as the main source of wealth and value.

The origins of the idea of intellectual capital can be traced as far back as the first half of the nineteenth century. One obvious and influential discourse that made it possible to talk about IC was (and is) the idea of a transformation from an industrial society to a knowledge society (Kline, 2006), in which knowledge and intellectual capital are leveraged as the most important resources for growth and competitiveness. IC is what determines the organizational advantage of the knowledge-intensive organization (Nahapiet and Ghoshal, 1998), and is considered 'instrumental in the determination of enterprise value and national economic performance' (Petty and Guthrie, 2000). But talking about the management of intellectual capital is paradoxical in many respects, as we will discuss in this introduction. First and foremost, the boundaries of the knowledge-intensive organization are fading. Organizations are open, networked and global, their intellectual capital mobile and elusive. How to manage something that has no boundaries? Furthermore, is it possible that in a knowledge-intensive society, some firms that are not focusing on their intellectual capital are doing well? That is, is there any prerequisite for intellectual capital to be relevant?

The IC agenda has its own paradoxes. In this introduction we want to describe critically the development of the IC agenda in three generations of discourses. The division is not so much a division in time, but more a classification of issues in focus. Our ambition is, through this division, to present an overview of the development of IC and the inherent paradoxes in the way that IC has been conceptualized and used over time.

1.2 FIRST GENERATION: RAISING AWARENESS

The 'avalanche' of IC literature started in the mid-1990s with titles such as '*Intellectual Capital: Core Asset for the Third Millennium*' (Brooking, 1997), '*The New Organizational Wealth: Managing and Measuring Knowledge-Based Assets*' (Sveiby, 1997), '*Intellectual Capital: Realizing your Company's True Value by Finding its Hidden Brainpower*' (Edvinsson and Malone, 1997), '*Intellectual Capital: The New Wealth of Organizations*' (Stewart, 1997) and '*Intellectual Capital: Navigating in the New Business Landscape*' (Roos, 1998). The key argument is that there was something going on among organizations and that it was both new and invisible.

The books typically carried an argument about the upcoming conflict between the old (characterized by concepts such as history, cost, events, operations and industry) and the new (with concepts such as future, value, process, strategy or services).

The discussion in the business literature was parallel to that taking place in international organizations such as the Organization for Economic Co-operation and Development (OECD). The OECD had been a major player in the adoption of concepts such as the knowledge economy (Godin, 2004) or systems of innovation (Mylteka and Smith, 2002) and it also played a major role in the adoption of the intellectual capital concept. Chapter 2 by Ulf Johanson and Johan Henningsson tells the intriguing story of how IC was framed as a concept within the OECD. The story from the inside is a tale of conflicts, alliances, pedagogy, old papers and flashy PowerPoint presentations. All play a part in the archaeology of IC.

A common picture presented in the early days of the IC formation was a picture of an apple tree where the fruits were drawn in delicious red or green. The metaphor of the tree and the fruits pointed to several main features. First, the apple is, of course, often associated with knowledge (in the Bible and Isaac Newton's discoveries). Second, the apple is incontestably the fruit of the tree and is easily associated to the profit of the firm. The tree itself carries the fruits and is connected to the visible assets of the firm (as reported in the balance sheet). The crucial issue of this metaphor, however, is the invisible roots. As any gardener knows, the invisible roots are crucial for both the apples and the tree itself. To gain the fruits, the tree must be healthy, but the tree will only bear fruits if the roots are intact. In this metaphor, the roots are the IC of the company.

The initial years of IC discourse were dominated by and focused on the necessities of private firms. How to manage intellectual capital in private firms? How to disclose information about how firms were creating value? Paradoxically, in the knowledge society, only one organization seemed to be relevant for knowledge production.

The firm-centred IC discourse, however, did not stop here. By suggesting possibilities to produce balanced presentations (Kaplan and Norton, 1992), to report and manage in order to increase market value, and to manage in a complex globalized world, IC became more than mere metaphor. In fact, it became an issue that was hard to contest. One conclusion was drawn: paradoxically, intellectual capital is ostensibly recognized by being invisible.

1.3 SECOND-GENERATION ISSUES: SIMPLIFYING

The issue of invisibility became one of the first problems for the body working with IC to resolve. The idea of visualizing and creating a transparent organization may explain why the accounting field played a significant role during the second generation of IC texts. In order to make the numbers communicable, efforts were made to produce a classification system (Gröjer and Stolowy, 2000). There are at least two different approaches. In the natural sciences the ideal model is a systematic combination of mutually exclusive and collectively exhaustive classes. In the social sciences, however, the classification may work as a heuristic tool (Gröjer, 2001) where simplification is the desirable state.

Several suggestions have been presented, inspired from different theoretical domains (such as strategy, management, accounting, market theory, legal theory). This has not only led to a difference in classes but also to a difference in the naming of them. Is intellectual capital about resources or assets? Or is it about rights or values? Or maybe it is all about perspectives?

The scholars are engaged in the daunting task of trying to put clarity into the conceptual mess and ending up with a simple and meaningful classification of intellectual capital. Today, there seems to be some kind of agreement on a division of three. First, there is the human capital which primarily relates to the employee of the firm. Second, there is the structural capital which aims to capture the organizational knowledge. In this book, this is sometimes labelled organizational capital. Third, there is the relational capital, the resources that are related to the external factors of the firm such as customers and suppliers. The division of three opened up possibilities to do what accountants do best: start measuring. The slogan ‘What cannot be measured, cannot be managed’ was dominant.

Approaching a complex concept such as intellectual capital with such a simple classification is paradoxical. In Chapter 4, Erik Bjurström and Hanno Roberts criticize the three-box model. They argue that the model of IC should be developed to mirror the knowledge-based value creation. It is argued that simplification leads attention away from managing connectivity between resources to counting resources. So, paradoxically, by trying to manage intellectual capital, did we end up with a classification that was not capturing the value creation process at all?

Furthermore, could the focus on the three boxes leave managers unaware of other elements critical for intellectual capital which were not so visible in the model? Guy Ahonen, Tomi Hussi and Susanne Schunder-Tatzber show that although the ideas underpinning the IC discourse have started to problematize the dominant accounting view of value creation, the ‘division of three’ does not suffice. In Chapter 3 they investigate the preconditions for human capital and, drawing on literature on work life, they argue that it is paramount to add the issue of well-being in order to understand human capital.

1.4 THIRD GENERATION ISSUES: QUESTIONING AND EXPANDING

In the first step, clear dichotomies were presented, polarizing the old with the new. By marketing metaphors and paradoxes as problems and solutions, IC became an issue worthy to put on the agenda. The second step was concerned with developing a schema for sorting knowledge resources. Many of the contributors to this book were active both in highlighting the issue as well as in developing classifications. Are we moving towards a next generation of IC?

Although we come from different battlefields (universities and practice), different countries and have different research approaches, we share in common a need to move beyond the ‘we must measure’ dogma (sometimes) dominating the discourse. The imperative about measuring has become such a dominant (and black-boxed) argument that issues of managing, communicating, questioning and criticizing the subject matter have become almost impossible.

The third generation of texts are about problematizing paradoxes in the knowledge society as well as expanding our understanding of IC beyond the ‘it is the crucial resource’ cry and the ‘we must measure’ syndrome. This book, consequently, aims to relate and comment on the first- and second-order imperatives as well as to provide a text where a multitude of pictures are IC is presented. Our starting point is to recognize the multifaceted character of IC, acknowledging (see Jan Mouritsen’s discussion in Chapter 10) that IC has to be understood as a boundary object.

In organizations, IC often acquires its meaning in interplay with concepts such as the balanced scorecard (BSC), new public management (NPM), human resource costing and accounting and so on. In a study of IC in practice, Mette Rosenkrands Johansen, in Chapter 9, links IC with the BSC. She argues that measurements of IC are only the start of the management process. As her study of practice at the top management level shows, the IC measurements need to be put into a context and made understandable in order for the issue to become a bullet point on the organizational agenda. That is, the fate of an IC number is not certain. In Chapter 7, Roland Almqvist and Matti Skoog discuss colliding discourses, and they problematize the idea of IC being merely about for-profit organizations. By using two grids on a public organization (new public management and IC) they highlight the possibilities of IC as a means of discussing value creation beyond profit in interplay with NPM. In fact, their conclusion is that the IC concept may be more suitable for the public sector than the dominating idea of new public management, since it explicitly has knowledge and relational perspectives.

The expansion of IC to other knowledge-intensive organizations does not stop here. Two chapters are devoted to the study of IC in research and university settings. These organizations have a specific position in the IC discourse and the question Bino Catasús and Bengt Kristensson Uggla’s Chapter 5 and Karl-Heinz Leitner and David O’Donnell’s Chapter 6 are concerned with is: How is it possible to manage knowledge organizations if their outcomes and results cannot be fully predicted and planned? In Chapter 6 Karl-Heinz and David appropriate key insights from complexity theory that can better address the unknown, the non-linear, the uncertain and the supposedly undiscoverable. In Chapter 5, Bino and Bengt join the debate that was started by Helga Nowotny and friends about the status of universities today. Their chapter revisits the history of the university and suggests that it can still be a driving force of IC. One prerequisite, however, is that the university goes beyond being a flexible organization and becomes an organization where reflexivity is hailed.

But aren’t we going too far by assuming that IC is relevant for all organizations? As Chapter 8 by Cristina Chaminade and Jan Vang points out in their analysis of a mature and low-tech sector (electrical utility), IC might not be relevant for all firms as the use of IC is related to the type of strategy that the firm might pursue.

The book attempts to open new research fields rather than to close them. It raises more questions that it answers – questions about the future of IC. Jan Mouritsen's closing chapter sums up many of the possible research arenas which are opening up as the IC discourse matures.

1.5 BEFORE YOU START

So where does that leave us? One reading of this book is that intellectual capital is an inviting idea that gives new perspectives on the old and new in organizational settings. Although the concept has no specific nucleus either in practice or in science, it has one bold imperative: we must keep searching for knowledge about knowledge. Another conclusion is that the idea of IC has a multidisciplinary boundaryless agenda that makes it, paradoxically, both empty and full. The ostensive characteristics of the IC ideas (fragile and solid) make the investigations important. There is no doubt in our minds that the intangible way is never ever to leave the trail that is concerned with knowledge about knowledge, and that this tour will lead us to a plethora of paradoxes. In this knowledge society, knowledge is not only the only way out; it is also the only way in.

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