National Intellectual Capital in Waiting: 
A Strategic IC Quest

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GROWING IMBALANCE

Is the traditional financial reporting giving us the right map for the Future? Test your perspectives on among others the following key questions:

- Where is value being created in Germany today, in what enterprises and institutions, and in what region or city?
- How does the IC report of a nation’s knowledge and intellectual capital look like?
- Can there be another view to shape the value platforms for the new Wealth of Germany?
- Is there another value logistics/flow emerging, calling for contextual knowledge, and active intelligence as a more refined strategic map for IC entrepreneurship?
- Where do we have communities and clusters of knowledgeable enterprises in a nation?
- What kind of public initiatives feeds society entrepreneurship and growth of society’s IC?

MAPPING INTANGIBLES FOR THE NEW KNOWLEDGE BALANCE

What is the larger context for this pioneering project of assessing the knowledge balance for enterprising?

The investment into intangibles among 18 countries in OECD countries in 2000, according to M. Khan at OECD, varied from 2–7% of GDP, with Sweden and USA at the top end. This figure is based on a narrow definition of expenditure for R&D, education and software as intangible investments. With a broader definition the figure would grow for the knowledge intensive economies to be beyond 10% of GDP. Furthermore in those countries the intangible investments seem to be more than 60% of total investments.

Those intangible investments have mainly been in Software and ICT, R&D as well as advertising/entertainments together representing about 80% of the intangible investment.
In Europe this has resulted in a quest for promoting the competitive investments into intangibles, also called the Lisbon agenda, from the EU summit in Lisbon, Portugal in 2002.

The aspiration is to lift the investment of especially R&D to the level of 3% of GDP for EU-12 countries.

This highlights both the magnitude and shift of investments into intangibles as well as the need for a systematic IC report and mapping of the value creation based on these expenditures.

**FUTURE ACCOUNTING AND KNOWLEDGE REPORTING**

This growing space of intangible investments is among others demanding more strategic intelligence, or knowledge navigation capability on the society, enterprise as well as individual level. The core of it is the capability to perceive, report and relate to the surrounding context. The alternative is growing ignorance, stress and competitive failure.

The definition of Intellectual Capital (Knowledge capital) is Future Earnings Capabilities, i.e. not historical costs, but rather futures, i.e. To think ahead and to go from harvest and subtracting value to nourishing and adding value.

This longitude perspective is beyond time and costs regarded as traditional perspectives of the balance sheet. It is about sustainability, ecology and meaning making. The longitude perspective is focusing on capital in waiting as an opportunity space and highlighting the cultural context for value creation. It might even be regarded as sustainable wealth in waiting. For Germany this is of a magnitude of ... trillions of Euro! If not addressed it is a leadership liability.

In terms of measurement, the traditional reporting model mostly represents the tangible goods sector and has begun to encroach on the intangible economy sector, based on emerging requirements from among others IAS – International Accounting Standard Board, and its rule IAS 38. Furthermore the IAS rule 1 was refined already in 1999 to include more dimensions of the enablers for the financial impact. However, it is not yet able to represent the full potential of the networked intangible business model of the 21st century based on intellectual capital. In large part it is restricted by the concept of ownership and confined to reporting on elements it can identify within a firm’s legal boundaries. This is inadequate in the knowledge economy. The key resources are to be found outside the traditional accounting space, e.g. Customer relationships.

We have to develop a more lateral, benchmarking accounting of value creation potential of intangibles. We have to acknowledge such new in-
tangible indicators and get the accountants to audit them, as well as annual reports to present transparency of such intellectual capital, to be able to navigate these new organizational value creations. Such IC reports following very much the experiences from my prototyping IC reporting at Skandia during the 1990’s, as the world’s first, have now been prototyped for the Mittelstand in Germany. Guidelines for knowledge reporting have emerged in several countries with Denmark as the very first. Now the very first IC report prototypes for the intangible R&D institutions are emerging.

The new knowledge accounting is about tangible/intangible, assets/liabilities, internal/external, actual/potential perspectives.

**SUSTAINABILITY FACTOR FOR KNOWLEDGE GROWTH**

The new unit of analysis in the knowledge era will be around sustainability based on innovations and sense making, which might reconnect to the ecology of the knowledge economics. It is about the roots meeting the context. It is about cultivating spaces for such meetings to happen and then to release the brainpower potential. It is about the intangible enablers for knowledge exchange and knowledge interactions by longitude leadership. Consequently the new ecosystem for cultivating leadership will require a combination of new accounting indicators related to values as well as spaces for value creation. In Sweden we are now prototyping the cultural accounting, health management and knowledge space design for intangible strength.

What seems to be one of the dimensions of intangible strength is the organisational structural capital. It looks like human capital meetings and interactions that might be those essential intangible dimensions. Attractive connecting spaces in a network economy have to be designed. However very few have addressed this for society development and urban design. The social construct of the firm as well as the city is emerging as key organisational capital. Remember then that once the city was a knowledge tool that reduced the transaction costs for trading of both goods and services.

Knowledge zones of tomorrow will be based on complexity/chaos, intelligence, digital competencies and cultivation. So called knowledge cities or knowledge zones are emerging (for example Barcelona and its special strategic outfit 22@ for exploration into the future). The core of this is shaping the urban design for the knowledge economy and its knowledge workers.

Ragusa is an interesting bench learning case of a city of IC wealth. It
was both a city and a republic of the Mediterranean, and more precisely the Adriatic coastline. It had one of the highest standards of living for 500 years. It sustained its independency throughout five centuries, between 1358–1806.

According to the research on Ragusa three major sustainability factors can be grouped as clusters for further elaborations:

- Intelligence, being well organized to relate to the external structural and human capital
- Governmental leadership for providing structural capital as a precondition for wealth creation
- Community values for bonding human capital with different structural institutional capital for the larger common good of the city

**Strategic Governance and Public Policy**

The development of powerful intangible resources is an essential issue for companies. But it might be even more critical for a society and its public organizations. As it is the case for companies, public organizations must nourish innovative strategic society approaches, in particular in the functional ‘fields’ of the intangible. This will be the governance for the growth of regional intellectual capital.

The key message is that we need deeper intelligence to understand and follow the wave of knowledge economics by:

- Annual ic reports to describe the ecosystem for knowledge sustainability
- Space for attracting and shaping quality of life for knowledge workers
- Relationship nourishment for continuous renewal and innovation

**Some Links for Further Reading**

- www.corpatelongitude.com
- www.intellectualcapital.se
- www.wissenskapital.info
- www.iccommunity.com
- www.entropy.com
- www.bottomline.se
- www.cmm.ki.se