The book brings to light a valiant attempt at particularizing an organization's intangible resources, and finding the most systematic way of extracting and measuring their value to help solve functional problems and augment business performance.

Written with reason and candor, the book demonstrates the author's hands-on exploration of intellectual capital, goaded by his own desire to rectify the dilemmas of its assessment and to proffer an alternative valuation tool that shall not only be a contribution to the emerging literature but also a leap forward in the realm of scientific management research.
Intangible Perspective: An Overview

Recent developments in business and in the market have resulted in a recharged focus on what must organizations do in order to thrive. These changes have likewise pushed businesses to re-examine the rudimentary components of their enterprise and identify what their “edge” is against the other players. That “edge” transcends the tangible material and structural infrastructure that enable companies to function, and instead emphasizes what they know and how they (should) use that knowledge as a strategic advantage.

The Rise of the Information Economy

The term “information economy” exemplifies the prominence of information as an economic good crucial to the majority of operations and activities carried out today in business and other organizational contexts.

As industries turned extremely gung ho, knowledge became a decisive factor for survival. Companies realized that internal expertise and human experience uniquely their own can in fact create milestones in business performance. Knowledge (information) in this sense is the so-called “pointer” to intangible organizational resources that are recognized as a basis of innovation, competence, and later on, success.

The author mentioned Seven Characteristics of the Intangible (Information) Economy:

- Knowledge has replaced labor and capital as a fundamental resource in production.
- Products and business processes have become more knowledge-intensive.
- Services are as important as products; knowledge itself has become an important product.
- Traditional economic laws no longer hold true: the law of diminishing marginal returns has been replaced by the law of increasing returns due to mechanisms of positive feedback.
- Concept of resource ownership has changed as knowledge mainly resides not in the company itself but in the heads of employees.
- Physical strength and manual dexterity are superseded by knowledge workers who create most of the “value added.”
- Management principles and methods have transformed as treatment of intangible resources is essentially different from handling of tangible ones.

Three Tongues, One Mouth: Defining Intangible Resources

An organization’s intangible resources take after the domain of three professional communities: intellectual capital, accounting, and human resources.

The Intellectual Capital movement uses the term intellectual capital to mean:

- “packaged useful knowledge” (Stewart, 1997)
Intellectual capital has encapsulated an organization’s non-monetary sources of wealth creation. Significantly, the word capital indicates that intellectual capital has value, and as such, can be measured and managed.

From the Accounting profession, the term intangible assets is introduced. This does away with the purely brain-based capabilities of an organization. The International Accounting Standards Board defines it as “an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes (IASC, 1998).

Lastly, central to human resources practitioners is the term itself - human resources - the workforce of the company. Some exploit the term “human assets” to accentuate the fact the people are indispensable sources of wealth and competitive advantage in an organization.

Can That Which Can't Be Seen Nor Touched Count?

The author’s answer would be a resounding “Yes!” Intangible resources matter because of the cognitively or socially-constructed “value” assigned or given them by the stakeholders. Value here is taken to mean the degree of usefulness or desirability of something, especially in comparison to other things.

Because a thing’s value is cognitively or socially-constructed, it is not inherent in the item at hand; rather, it is dependent on the observer’s gauge on its usefulness or desirability.

People embark upon processes of valuation, described by Rescher (1969) as “a comparative assessment or measurement of something with respect to its embodiment of a certain value.” It employs yardsticks, benchmarks, or value scales in order to set apart varying degrees of value and to somehow provide an idea of what level is targeted, nominal, or ideal.

On All Fours: Determining Value and Methods for Valuation of Intangibles

4 Ways to Determine Value:

- Financial Valuation - the criterion of value is in monetary terms
- Value Measurement - makes use of a non-monetary criterion and translating it into observable phenomena
- Value Assessment - criterion cannot be translated into observable
phenomena and instead depends on personal judgment by the evaluator

- **Measurement** - does not include a criterion for value but involves a metric scale that relates to observable phenomenon

4 Methods for the Valuation of Intangibles:

- Intangible Scorecard (Guy and Lev, 2002) - financial valuation
- Inclusive Value Methodology (M'Pherson and Pike, 2001) - value measurement
- Intellectual Capital Benchmarking System (Viedma, 1999) - value assessment
- Skandia Navigator - (Edvinsson and Malone, 1997) measurement

The Snags of Intangible Valuation

Most scholars of the Intangible Perspective consider the valuation of intangible resources troublesome. Problems could be categorized into three areas:

- **What do we measure?** Problems of scope and demarcation pose one of the biggest challenges to the valuation of intangibles. With overwhelming taxonomies of intellectual capital, human assets, and non-monetary sources of wealth, one must be able identify and define in a precise way, what type of intangible resource is going to be examined.

- **Why do we measure?** Valuation of intangibles may be an example of an organization’s serious attempt at finding solutions to its crisis. However, valuation simply cannot be rendered whenever a glitch is spotted. The type of valuation largely depends on what kind of organizational problem is being dealt with. Careful diagnosis must first be conducted as the right valuation method cannot push through without proper understanding of the specific problem the organization wants to solve.

- **How do we measure?** With a number of valuation methods available, an organization must guard itself against the mistake of employing an inappropriate valuation method for the problem it seeks to work out. One must know the differences, say, between valuation and measurement, and what criterion of value is meant for the problem at hand.

### Overcoming Hurdles: the Need for a New Method

The author's foremost objective was to design and test a method for the valuation of intangible resources based on the approach of management research practiced as a design science (Andriessen, p. 15). This slant seeks to contrive both a scientific and practical means for the objective measurement of intangibles and the settling of organizational problems. It seeks to combine the relevant, more academic theories of management with the rigor of management theory and practice as shown in popular management literature.
The World Is What We Make Out Of It

Most of the terms we know and everyday phenomena we encounter are mere social constructions guided by previously gained knowledge and experiences. Our choice of words and the meanings (or value for that matter) we attach to them follow a certain rule or tradition brought about by a particular institutional setting. Communication and intersubjective understanding is funneled by our cultural milieu, education, ideological proclivities and experiences.

What Do Social Constructions Have to Do with Valuation?

As we continuously make sense of the social world - the realm wrought by human experience - we acquire knowledge and cognizance of “operationalization” or putting our distinctions into proper contexts and defining them according to easily observed and readily identifiable measures. In the Social Sciences, this method proceeds in two ways:

- **Empirical Propositions**, which use a set of distinctions that describe, explain or predict the world, or
- **Practical Propositions**, which diagnose situations, define problems, or offer pragmatic methods and solutions to problems.

These two lines of attack have a bearing on valuation, as the basic process of identifying intangibles and assigning value to them is greatly influenced or affected by the theoretical leanings or preferences within the organization. Valuation, after all, is still a human experience.

So What of Management Research?

Management research falls in the sphere of social science. It may be defined as the scientific discipline of studying organizations, their environment, and the way these organizations are or should be managed, management and the organization itself are both social constructs - they do not exist unless we refer to them in that way or in that context. Consequently, the subject of investigation in management research and the processes involved in it largely depend on how they are primarily defined by those who have a stake on them.

Getting Into the Grind: Coming to Grips with Intellectual Capital

The author's scientific journey into management research begins with drafting a new method for the valuation of intangible resources in a manner that resolves the problem of how to determine the value of intangibles and how this could improve organization performance.

Adopting Van Aken's (2000) reflective cycle, a process for the scientific testing of practical propositions, the author started off with a set of distinctions to diagnose a class of situations and to define a class of problems. Subsequently, Aken designed a
practical method to provide a general solution for the class of problems. He then translated the method in the context of a specific organizational problem and ended with a design knowledge for the solutions to the class of problems.

**Stages of the Research Proper**

The author's study may be divided into four phases:

- **Phase 1: Laying the Foundations of the New Method** - the author, together with his team of experts, developed the method for middle-size knowledge-intensive companies with 50 to 1,000 employees. This included companies that produce products that contain knowledge as well as companies that sell knowledge. They crafted the knowledge value chain in order to measure the investments in knowledge accumulation and maintenance, the size of the knowledge stock, and the application of this knowledge into the company's value creation process.

- **Phase 2: Creation of the 12 Building Blocks for the New Method**

  1. Intangibles must not be confined to pure knowledge or brain-based wealth alone.
  2. Not all intangible resources are relevant. Relevant resources are those that provide the value added to the company and those that are of strategic importance.
  3. Focus is on the current management of intangible resources and their future potential.
  4. There is need to also look at the existing stock of intangible resources.
  5. The new method must provide insight into the quality of management of intangible resource.
  6. The method must identify the company's core competencies such as employee knowledge and skills, collective values and norms, management processes, and technologies and technical systems.
  7. The core competencies approach must allow for synergies between intangible resources.
  8. The new method must be able to render financial valuation of intangible resources; must be able to identify the value of core competencies.
  9. The new method must be able to estimate organizational component by using a cost, market or income approach.
  10. In the new method, individual competencies, when added, would result in the total value of all strategically important resources.
  11. The new method must be able to provide a checklist for the quality of stewardship of intangible resources.
  12. The potential of the company is the result of the available stock of intangible resources and the quality of the way they are managed.

- **Phase 3: Developing the Weightless Wealth Tool Kit** - such is the tool specially designed to draw together both the empirical (scientific) and the practical aspect of valuation. The limiting conditions, functional
requirements, and operational requirements for the organization to be “tested” were outlined. The core competencies approach was utilized to delimit the scope of intangibles, after which, a financial valuation was conducted to determine the strength and the value of each core competence, as well as its potential, sustainability, and robustness. Using an income projection requirement, the income generated by a core competence can act as “proxy” for the added value it can provide.

- **Phase 4: Trying Out the New Method** - the Weightless Wealth tool kit was tested in 6 Dutch companies: Bank Ltd., Electro Ltd., Automotive Ltd., Logistics Services BU, Professional Services LLP, and the Consulting Department, tackling organizational problems mostly on internal management of intangible resources in general and external reporting of non-monetary assets.

Research Upshots: the Black and Blue Marks

The following are some of the positive results of the test:

- The method was able to unravel and tap the intangible resources that are strategically important to companies and did so by identifying a company’s core competencies and supporting intangibles.
- The method came off with an evaluation of the impact of management on the added value, competitiveness, potential, sustainability, and robustness of intangibles.
- Results have great implications on how management can enhance the value of its intangible resources by raising the added value and improving the company’s core competencies.

On the other hand, there are drawbacks:

- The method is not an appropriate tool for external reporting of intangibles. The results spawned by the process would still require supplementary research so that they become legitimate and worthy of publishing. External reporting is also hampered because the tool kit demonstrated not only the company’s strengths but also its weaknesses, and companies are reluctant to expose the latter for fear of criticism.

A Final Shot of Wisdom

The author held that the valuation of an organization’s intangible resources is still at its embryonic stage, yet breakthroughs are welcome. His intrepid shot at reconciling both the empirical and practical fringes of management research is a step further the trajectory of objective assessment of the weightless wealth that affords each company with a viable edge. His work proved that extracting value from intellectual capital calls for two things: first, an awareness of what these resources are and what they can do to lunge organizational success, followed by the necessary institutionalization of valuation processes that continue to monitor, evaluate, and
make rectifications on the progress of core competencies vis-à-vis the organization’s employees, its supportive infrastructure, and its customer relations.