



Intellectual Capital for Communities
In the Knowledge Economy

Understanding the Risk of Intellectual Capital: The Potential IC to Real IC Conversion Ratio

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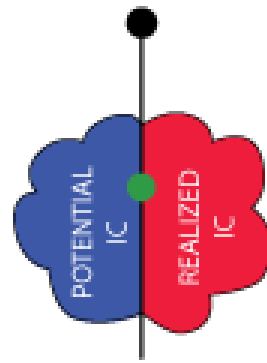
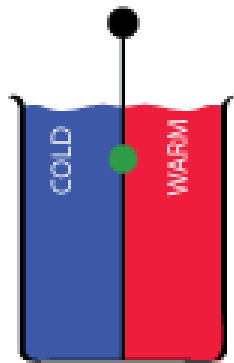
Overview



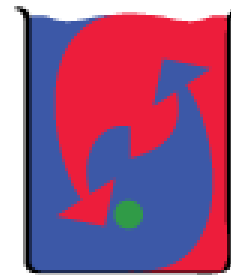
- Converting potential IC into realized IC
- Risks of IC valuation
- Traditional valuation approaches not applicable in current market
- Perceptual cycle: Schemata overgeneralization
- Increasing value generation
- Paths forward

Available Potential to Realized IC

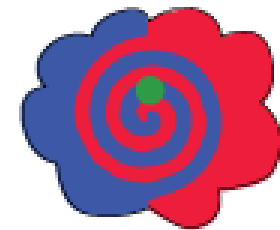
1 In the physical world... In intellectual capital...



2 Remove the barrier... Activate the perceptual cycle...

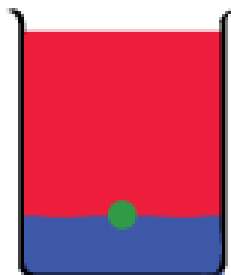


and kinetic energy is generated as potential energy becomes real.



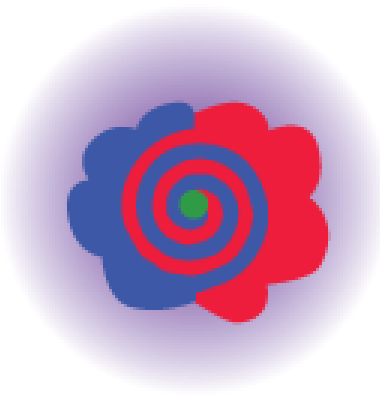
and available potential IC becomes realized IC.

3 Physical, finite matter achieves a resting state,



but there is residual potential that's not accounted for.

Available potential-to-realized IC conversion ratio is virtually unlimited.



IC Risks

- Lack of book value
- Employees can leave the company
- Start-ups need time to create and sell products or services
- Traditional accounting accounts for IC within very large aggregated categories, e.g., “good will”
 - ▣ High level of abstraction makes it impossible to assess the direct impacts of IC
 - ▣ Employees
 - Expense
 - Liabilities

Traditional Valuation Approaches Don't work

- Traditional Approaches:
 - ▣ Book Value – Cost method
 - ▣ Discounted Cash Flow (DCF)
 - ▣ Market Comparables
 - ▣ All based on historical data
- Typical Techniques
 - ▣ Eye balls: advertising revenue: assumes unlimited budgets and cannibalization
 - ▣ Piece of the action: transaction facilitation revenue
 - ▣ Patents, licenses, copyrights: easily reversed engineered

Perceptual Cycle



- Begin with attention focusing
- Access to semantic memory existing schemata
- Schema “overgeneralization”
- New combinations, re-combinations, new schemata

Increasing Value Generation: Some Preliminary Thoughts

- Stimulate greater yield from conversion ratio
 - ▣ How do we incentivize the “nerds”?
 - ▣ How do we build requisite available potential IC?
- Building platforms for customization
 - ▣ What syntax leads customers to generate custom services?
 - ▣ How do we measure customer available potential to realized IC conversion yield?
- Mergers & Acquisitions
 - ▣ How do we merge operations without destroying available potential IC?
 - ▣ How do we select acquisitions based on available potential IC?
- Emphasis on efficiency not the only answer
 - ▣ Employees need time to think great thoughts
 - ▣ Constant pressure toward incremental optimization may not promote innovation

Paths Forward

- The new information can
 - ▣ Reduce risk
 - ▣ Create greater transparency
 - ▣ Track value generation
- Operationalize and Map available potential IC
 - ▣ “Nun” studies
 - ▣ Analytic essays
- Monitor conversion ratio
 - ▣ Need practical way to operationalize available potential IC
 - ▣ What effect does reporting conversion ratio yield have on employee motivation?

Avez-vous des questions ?

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