Intellectual Capital for Communities
In the Knowledge Economy

Intangibles and Risk – Some empirical insights

Susanne Durst
Université Paris-Sud 11
Università degli studi Ferrara

UNIVERSITÉ PARIS-SUD 11

European Chair on Intellectual Capital Management

World Conference on Intellectual Capital for Communities
- Seventh Edition -

26&27 May 2011

Starting point

- Despite the number of work already done in the field of IC/IA these research activities lack an appropriate consideration (few exemptions are e.g. Harvey & Lusch, 1999; Caddy, 2000; Viedma, 2007; Kupi, Sillanpää and Ilomäki, 2008; Stam, 2009; Solitander, 2011) of the risky side of these resources
- Thus our understanding of the risky side of intangibles is limited
- This is dangerous as it suggests that to date we have only an unbalanced understanding of the concept of intangibles
- Against the importance of intangibles it can be argued that the field of IC/IA could benefit from looking more closely at intangibles-related risks.

Some empirical findings

Intangibles and risk in the context of managerial succession (I)

- How to manage the predecessor´s exit? Particularly in the context of non-family succession?
- What happens with the predecessor´s human capital and relational capital?
- How to manage the exit of key-employees as a consequence of managerial succession?
- How to continue relationships with employees, suppliers, customers, research institutes etc.?
- How to best adapt the organizational culture to the new situation?

Intangibles and risk in the context of managerial succession (II)

- Frameworks for company analysis/due diligent need to be improved/revisited
  - Stronger integration of intangibles
  - Disentanglement from checklist approach
- Reconsideration of succession planning in firms

Intangibles and risk in the context of staff turnover (I)

- Durst & Wilhelm (2011) examined how a medium-sized enterprise might identify and manage its critical knowledge
- Main findings
  - firm's members are aware of the potential danger of knowledge attrition. However, the precarious financial situation the firm is facing does not allow for the development and implementation of measures to tackle the problem
  - a rather low staff turnover, which not only maintains the firm's value chain, but also seems to give the management a false sense of security

Intangibles and risk in the context of staff turnover (II)

- Main findings
  - the firm's management neglected to introduce suitable processes during good times, which might have been the consequence of the management’s too strong integration into the firm's day-to-day business at the expense of strategic issues
  - our findings further corroborate the downside of dominant managers who have trouble realising that their individualistic behaviour can cause the firm problems once they reach retirement.

Intangibles and risk in the context of early stage firms

- Claessen & Durst (2011) explored the perceived risk associated with intellectual capital/knowledge assets in early stage firms
- Main findings
  - the study revealed three different perspectives within which the difference can be analysed
    - *maturity perspective*: early stage firms do not consider factors like equality, occupational safety, own investments and trade cycles as risk; early stage firms are more self-centred in the fact that they do not consider stakeholder risk in the same way as mature firms do
    - *industry perspective*: factors like image and information security have a very high risk attached
    - *country perspective*: credit rating being considered irrelevant

Intangibles and risk in the context of the job rotation process (I)

- Brunold & Durst (2011) investigated the perception of intellectual capital risks in the context of the job rotation process
- Potential IC risks triggered during the job rotation process

-High levels of stress among participants
-Frustration and demotivation
-Inefficient workflows - "reinventing the wheel"
-Loss of productivity, time and money
-Loss of knowledge and expertise (leading to repeated mistakes, wrong decisions, high costs etc.)
-Inhibits progression of corporate knowledge base
-Damage to corporate reputation - decreased workplace attractiveness

Intangibles and risk in the context of the job rotation process (II)

- Main findings
  - managers involved are only aware of a limited number of IC related risks, e.g. staff turnover or undocumented knowledge
  - some relational capital risks (damage to corporate reputation), structural capital risks (corporate knowledge base remaining at the status-quo) and human capital risks (stress, frustration, demotivation) were apparently underestimated respectively not associated with the job rotation process.
  - this apparent neglect might be a consequence of the time pressure managers are facing

Conclusion

- Managers take into consideration some “apparent” risks related to intangibles. Yet, they appear to be not aware of the range of different types of intangibles-related risks and their possible implications for the firms.
- Central hindrances seem to be missing time and financial resources available to stronger reflect on possible risks related to intangibles and thus to introduce suitable measures to deal with them. This situation might be even more worse the smaller/younger the company.

Implications

- Scholarship concerning the field of intangibles should seek to establish a more careful and comprehensive understanding of the risky side of this type of resource
- Academics researching in the SME environment need to consider how to find a balance between the normative approach of IC (risk) management and the short-term or muddle through approach often found in SMEs because of certain resource constraints
- Sensitization of managers for the variety of IC related risks and their probable implications constitutes the fundamental starting point towards solution