Start Measuring Intellectual Capital

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Increasingly, businesses need to pay attention to growing the intellectual capital of the business. Hard assets (facilities, vehicles, equipment) lose value over time and may not provide the highest returns for the business. The soft stuff (talent, leadership, patents, innovation, etc.) creates the most value and return.

A good way to frame this challenge is to think in three's. Start with the three main types of intellectual capital and the corresponding metrics:

1. Human Capital – The talent, skills and abilities of your workforce. You can measure and grow human capital through competency models, depth of experience, training programs, mentoring, and other practices.
2. Organizational Capital – The processes, systems, innovation, trademarks and other intangibles represent organizational capital. You can grow this capital by measuring things like process efficiency, system reliability, or your ability to implement new ideas.
3. Relational Capital – The relationships with your suppliers, customers, business partners, investors and other stakeholders is another element of intellectual capital. Metrics include customer satisfaction ratings, returns to investors, and degree of compliance with government regulators.

The key is to identify the specific intellectual assets unique to your company. If you are not sure, start with your value proposition for customers. This may include quality, pricing, rapid delivery, or improved functionality. More mature companies may have additional elements such as company reputation or great relationships with customers. Value propositions are driven by intellectual capital such as a motivated workforce, best in class systems, or strong leadership in management positions.

As you identify your intellectual capital, super-impose the other 3M's into the framework:

1. Measure – Develop a metric that reflects your current capacity with the element.
2. Manage – Collect the measurement information and assess where you stand with the development of intellectual capital.
3. Maximize – Establish targets to increase the value of the intellectual assets. This will ultimately translate into a higher valuation for the business.

Measuring the full range of intellectual capital can be challenging. Larger companies have diverse elements such as brand name recognition, ability to innovate, or company reputation. In order to put structure into the model, companies can look to three comprehensive frameworks:

1. Balanced Scorecard – Measures the company's performance across four to five perspectives such as Financial, Customer, Process, and Internal Growth.
2. Intangible Asset Monitor – Measures the company's intellectual capital within three domains: External Structure (Supply Chain, Customer Relationships), Internal Structure (Information Technology, Organizational Structure, Culture) and Competencies (Leadership, Skills, Experience)
3. Skandia Navigator – Focuses on five areas: Financial, Customer, Human Resource, Process, and Renewal / Development (what knowledge does the company need to develop to grow in the future).

For smaller private companies, a more refined approached may be appropriate. There are several cloud based solutions to introduce a broader set of metrics such as the Value Opportunity Profile and the Value Builder System. Both of these solutions provide critical success factors for startups.

If you want to focus on certain elements of intellectual capital, you can implement models such as the Leadership Practices Inventory model to develop leadership or the Denison Culture Model to change the culture of your company.

Regardless of your approach, there is an abundance of models and frameworks to grow and appreciate intellectual capital. Intellectual capital is the big driver behind your business and there is no excuse why you should not be measuring to manage to maximize the value of your intellectual capital.