

### **Section 3.**

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## **INTELLECTUAL CAPITAL MANAGEMENT STRATEGIES**

In an increasingly knowledge-oriented world it is essential that organizations give greater recognition to their intellectual capital if they are to survive in the knowledge economy. Greater reliance on intellectual capital means it will be important for organizations to maximize the value of their intellectual capital and to continuously enhance it. An increasing number of organizations can be identified as knowledge intensive, for example, consulting firms, law firms, software developers, and similar organizations operating in the service sector that are totally reliant on their intellectual capital for the success of their business. However, all organizations require intellectual capital if they are to operate effectively and maintain sustainability [1].

Today's best strategic thinkers are those who are strategically "bilingual" – able to think in terms of strategies that ensure the optimal, effective leveraging of the traditional tangible assets, and simultaneously the highly differentiated strategic deployment of the new intangible intellectual capital assets. The intangible asset leader does the following: studies the history of strategy, understands, and can articulate the differences between industrial/manufacturing era strategies and intangible intellectual capital asset strategies; thinks strategically about the central problems of the enterprise; advances and defends strategically sound strategies that

use intellectual assets when they offer a superior solution; gets involved in strategic planning and joins the strategic conversations within the company; grows out of functional discipline management into executive leadership [2].

In Skandia's model intellectual capital consists of several entities facets which may be defined as follows [3]:

✓ Human capital consists of competence and capabilities of the employees. When an enterprise educates its employees, it increases its human capital. (In a free society the enterprise cannot own, only rent, its human capital.)

✓ Structural capital consists of the results of intellectual activities in data and knowledge bases, documents, etc. Skandia suggests, "Structural capital is what is left after the employees have gone for the night."

✓ Customer capital consists of the value of the enterprise's relationships with its customers.

✓ Organizational capital consists of embedded knowledge assets in the process and innovation areas.

✓ Process capital consists of the enterprise's value creating processes such as its organizational structure, management practices, systems and procedures, infrastructure computer systems and the like.

✓ Innovation capital consists of both explicit knowledge and hard-to-identify intellectual assets such as a positive culture.

✓ Intellectual property consists of documented and captured knowledge such as innovations, operational practices, patents, technology, educational programs, corporate knowledge bases, and designs and specifications of products and services.

✓ Intangible assets consist of the value of positive culture, community image, etc.

Progressive managers consider intellectual capital management and knowledge management to be vital for sustained viability. Recent practices support this notion and have provided important approaches and tools. Intellectual capital focuses on renewing and maximizing the enterprise-wide value of intellectual assets. Knowledge management supports intellectual capital management by focusing on detailed

systematic, explicit processes and overlap and synergy between. Intellectual capital management and knowledge management, and advanced enterprises pursue deliberate strategies to coordinate and exploit them. They create balanced intellectual capital portfolios that they implement with knowledge management approaches and tools.

Progressive managers have recognized that the enterprise's viability depends directly on [3]:

1. the competitive quality of its knowledge-based intellectual-capital and assets; and
2. the successful application of these assets in its operational activities to realize their value to fulfill the enterprise's objectives.

There is considerable overlap in the scope of intellectual capital management and knowledge management. There are, however, major differences between their foci and perspectives, and this is not an artificial distinction. Intellectual capital management (ICM) focuses on building and governing intellectual assets from strategic and enterprise governance perspectives with some focus on tactics. Its function is to take overall care of the enterprise's intellectual capital.

Knowledge management (KM) has tactical and operational perspectives. KM is more detailed and focuses on facilitating and managing knowledge-related activities such as creation, capture, transformation and use. Its function is to plan, implement, operate and monitor all the knowledge-related activities and programs required for effective intellectual capital management.

In particular, the two initiatives complement each other in addition to having important overlaps. As discussed later, they need to be closely integrated to prevent conflicts and to maximize effectiveness.

By managing intellectual assets and knowledge appropriately, the employees, and the enterprise as a whole, will be in position to act intelligently-the basic requirements for sustained competitiveness, success, and viability.

Five basic knowledge-centered strategies [3]:

1. Knowledge strategy as business strategy emphasizes knowledge creation, capture, organization, renewal, sharing, and use in all plans, operations, and detailed activities to provide the best possible knowledge available at each point of action.

2. Intellectual asset management strategy emphasizes enterprise-level management of specific intellectual assets such as patents, technologies, operational and management practices, customer relations, organizational arrangements, and other structural knowledge assets. Management's task is to renew, organize, evaluate, protect and increase the availability and marketing of these assets.

3. Personal knowledge strategy emphasizes personal responsibility for knowledge-related investments, innovations and competitiveness, renewal, effective use and availability to others of knowledge assets within each employee's area of accountability. The objectives are continually to build knowledge and to apply the most competitive knowledge to the enterprise's work.

4. Knowledge creation strategy emphasizes organizational learning, basic and applied research and development, and motivation of employees to innovate and capture lessons learned to obtain new and better knowledge, which will provide improved competitiveness.

5. Knowledge transfer strategy emphasizes systematic approaches to transfer (i.e. obtain, organize, restructure, warehouse or memorize, repackage for deployment and distribute) knowledge to points of action where it will be used to perform work. This strategy includes knowledge sharing and adopting best practices.

To pursue these strategies, organizations undertake specific programs and activities, provide supporting infrastructure capabilities, and sometimes create incentives to motivate individual employees, teams, and even departments and business units to cooperate with the new objectives.

Intellectual capital, and knowledge are the most important assets of most enterprises – and managers are starting to realize it. These assets represent the enterprise's future potential. Intellectual capital elements appear in many forms. Consequently, there are numerous approaches to building and embedding these assets

for further use and to capitalize on their value for the benefit of the enterprise. In all these situations, however, it is crucial to ascertain that the assets are used as intended- and particularly that they do not become 'dead assets'. In most instances, ascertaining sustained renewal and profitable use requires implementing supportive infrastructure capabilities and very importantly, targeted motivators and incentives. Only when these capabilities are in place will the enterprise capitalize effectively on its knowledge resources.

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