

# Some Intellectual Capital (IC) perspectives from a Chinese point of view

## 从中国文化的角度谈有关智力资本的几点想法

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### 0. Introduction

Over the last two decades, China's great achievement in economic growth and poverty reduction amazed the world. This fast growth has been possible thanks to the shift of workers and resources from low productivity agriculture to industry (Dahlman and Aubert, 2001). Ushering in a new era of knowledge economy, however, China faces pressing development challenges from ensuring employment to increasing international competitiveness. To meet those challenges, China needs a new strategy to focus on diversifying its goods and services by taking advantage of new knowledge (ibid).

Looking back, "knowledge economy" as a coinage first appeared in Peter Drucker's book *The Age of Discontinuity* in 1969. Forty years later, the implication of this concept is self-evident – knowledge-based resources as the major driving force in wealth creation changes the rules of business and national competitiveness. With increasing acknowledgement of knowledge-based resources, intellectual capital (IC) becomes the focus of attention at both the national and the corporate level. IC as an interdisciplinary construction not only signifies the immaterial or intangible nature of economic value (O'Donnell, Henriksen, and Voelpel, 2006), but also relates to the effectiveness of the strategy that a firm or a nation could aim for. Considering China's abundant cultural heritage, impressive economic growth, and imminent development challenges, it is high time to think about IC from a Chinese point of view. We believe the literal meaning of IC in Chinese is a good starting point to illustrate and to enrich this Western-born<sup>1</sup> concept. Already in 1991 Leif Edvinsson was starting to prototype IC applications when he was appointed in Skandia, Sweden, as the World's first Director of Intellectual Capital.

In P.R. China, "Intellectual Capital" (IC) is translated into "智 (zhì) 力 (lì) 资 (zī) 本 (běn)". The original meanings of these four Chinese characters could be traced back to a Chinese dictionary edited in the Han Dynasty<sup>2</sup>, called *Explaining Simple and Analyzing Compound Characters* (说文解字 in Chinese). According to this dictionary, "智 (zhì)" is used as a noun (knowledge) or a verb (to know). In the same vein, "力 (lì)" is "strength or ability" when used as a noun, and it equals "engage or use" when used as a verb. "资 (zī)" as a noun means "materials or goods", and it could also be used as a verb "to give or to provide". Last but not the least, "本 (běn)" refers to the "root of a plant" when used as a noun, and it has another meaning "basic and fundamental" when served as an adjective. If we compare the literal differences of IC in Chinese and in English, we will notice (1) three Chinese characters could be used either as a noun or a verb, while their English equivalents could only be served as nouns. This interesting point triggers our further thoughts: maybe IC is not a noun, but a verb. By claiming this, we want to stress that the definitions or theories of IC is less important than the application of IC. (2) The cause of literal differences between the two languages mainly ascribe to the word "Capital" other than "Intellectual". "Capital" in Chinese means "goods or materials", "the root of a plant"; while in English "Capital" has its origin in Latin "caput", which is "head". It might be a bit artificial to exaggerate the literal differences between "资本" as root and "Capital" as head, nevertheless, this superficial comparison enables the present authors to think through a "root and basic" point of view of IC, which echoes the essence of Laozi's

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<sup>1</sup> It is generally believed that Thomas Stewart, the former editor of *Fortune* and *Harvard Business Review*, pioneered the field of intellectual capital in the *Fortune* article published in 1991. Source from [http://en.wikipedia.org/wiki/Intellectual\\_capital](http://en.wikipedia.org/wiki/Intellectual_capital), Retrieved 4th Dec.

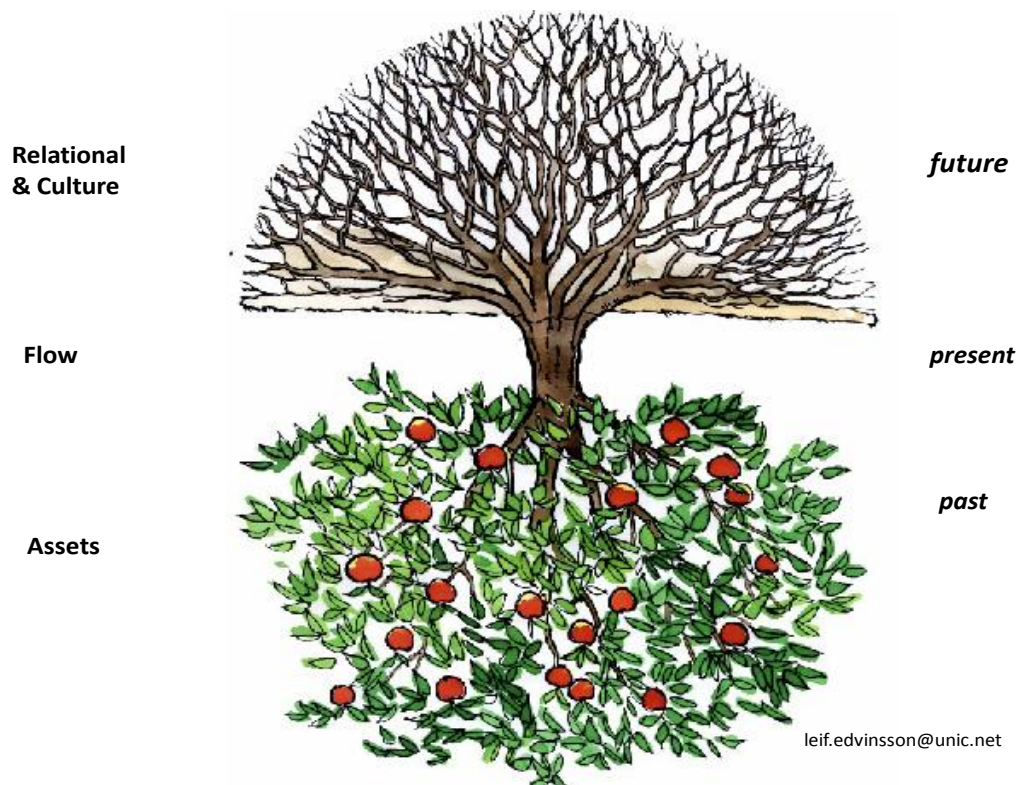
<sup>2</sup> The period is around early 2<sup>nd</sup> century CE. See more at [http://en.wikipedia.org/wiki/Shuowen\\_Jiezi](http://en.wikipedia.org/wiki/Shuowen_Jiezi). Retrieved 4th Dec.

philosophical thinking. We would argue that the Chinese view on IC fit in with the “dynamic and rudimentary” features of knowledge.

### 1. Three metaphors of knowledge

As Andriessen and Van den Boom (2007) note, there have been two popular metaphors in the field of knowledge management, namely, “knowledge as information” and “knowledge as feelings or thoughts”. More precisely, the view that “knowledge as information” had dominated Western textbooks for a long while before Nonaka and Takeuchi (1995) revived the concept “tacit knowledge” and evoked new interests in Western countries. “Knowledge as information” idealises knowledge as an objective, scientific and systematic entity, and yet it clearly ignores (1) the role that experiences and consciousness play in knowledge creation process, (2) knowing is a not a linear but a discursively dynamic process beyond managerial control. The second metaphor “knowledge as feelings or thoughts” corresponds with Naonak and Tackeuchi’s strong emphasis on knowledge as a human process (Andriessen, 2005). According to Marr *et al.* (2003), this metaphor mirrors Japanese intellectual tradition in combining subjective experiences (emotions and/or intuitions) with objective experiences (data and/or information). To a large extent, the second metaphor makes up the missing parts of the first metaphor, and yet it draws a clear-cut line between subjective experiences and object experiences without trying to build up an interface in between.

The third metaphor “knowledge (assets) as tree construction” was invented by Edvinsson when he started to make IC operational in the early 1990s. In this image, the fruits are highlighted as tangible assets, whose quality is largely determined by nutrition from the root. The soil is the enabling cultural context for continuous renewal and knowledge growth. This image highlights two important dimensions of knowledge, namely, a time line as well as a logic line. Along the time line, there is a focus of present, yet past and future are also given considerations. As to the logic line, as Professor Karl-Erik Sveiby (1997) also explained, tangible assets (represented by leaves, fruits, twigs and trunk of a tree in this image) are only able to sustain when the intangible aspects of organisations (represented by the root of a tree) function properly. To ensure a good harvest, we need to take care of the root of the plant; in the meantime, we should also pay special attention to the supply of nutrition. This metaphor captures the dynamic and relational features of knowledge.



Herein, we want to mention one particular example that best exemplifies this metaphorical thinking. The

InCaS project within the European Union's Sixth Framework Programme stands for "Intellectual Capital Statement – Made in Europe", which seeks to strengthen the competitiveness and innovation capability of SMEs by activating their intellectual capital. During each of the first two annual phases of the project (2006-7 and 2007-8), five SMEs in each of the five InCaS core countries (France, Germany, Poland, Slovenia, Spain) participated in piloting the InCaS approach and methodology in their own enterprises, and in evaluating the results in conjunction with the InCaS RTD<sup>3</sup> partners, including the present authors. More details are given on the InCaS website: [www.Incas-europe.org](http://www.Incas-europe.org)

To fulfil the agenda of this project, InCaS RTD partners invented "InCapedia" as a living lexicon for the emerging IC taxonomy, to facilitate unrestricted communication of relevant knowledge about IC gained directly from SMEs and other knowledge communities. In essence, InCapedia is a focused application of MediaWiki software that allows entirely free creation of an emerging interactive encyclopaedia for authoring, representing, accessing and communicating anything and everything to do with IC. InCapedia aims to provide a focused knowledge resource for SMEs, and it also expands the knowledge network that may add value to organisational decision makers. The advent of InCapedia is not incidental, for it reflects the feature of IC under the context of knowledge economy: instead of being a static and fixed being, the co-creation of IC is a dynamic and collaborative process.

## 2. Western literature on IC

In Western literature, the functions of IC have been discussed a lot. One of the popular explanations is that IC is potentially capable of improving the efficiency of capital market or labour market (Petty and Guthrie, 2000). This view is backed up by the evidence that IC has been frequently linked with economic, managerial, technical or societal advancement, especially in the following four aspects (ibid: p157):

- Information society and technology advancement
- The importance of knowledge and knowledge economy
- Interpersonal relationship under the influence of network society
- Creativity and innovation as a driving force of competitiveness.

The emergence of new concepts, such as knowledge economy, information society, signifies that today's value creation is different from the past. Conventional financial or accounting report fails to reflect the firm's earning potential. In order to rectify this method, many scholars suggest that non-financial information should be revealed alongside the regular publication and update of financial information so as to provide stakeholders a holistic view of the company's operations. Based on this proposal, many attempts were made to deal with IC in the last two decades. For instance, Sveiby (1997,1998) proposed a framework for monitoring intangible assets, whilst Kaplan and Norton (1992) developed balanced scorecard. In particular, Edvinsson and Malone (1997) did in-depth research on a Swedish insurance company, called Skandia. Building upon their research results, they put forward the so called "Skandia navigator" to measure the hidden values of the firm. These approaches, starting from different points of departure, highlight the intangible aspects of organisations. Take balanced scorecard for example, it emphasises the possibility of combining financial and non-financial information, yet assumes that "human beings" are the only source of value creation. "Skandia navigator", on the other hand, is very effective and complete in breaking intangible elements down, yet the results it produced are highly contextualised due to the nature of case study method. Although none of these applications is unanimously accepted, it is generally believed that IC framework should take human capital, relational capital, and structural capital into account.

To recall the history of IC development in Western contexts, we can easily discover a trend that the applications as well as the creations of IC are becoming more and more dynamic. In early 1980s, when intangibles first captured people's attention, the concept was not even distinguished from another concept goodwill. In mid 1980s, the movement to explain why a firm's market value is much bigger than the firm's book value led to the rising of IC measurement, which was typified by Sveiby's idea of balanced scorecard. After that, practitioners were not satisfied with measuring IC, but also sought to analyse the results of IC measurement systematically. Since mid 1990s, IC received unprecedented recognition, thanks to Nonaka and Takeuchi's best seller "*knowledge creating company*". The huge impact the book made in Western academia was phenomenal in that the book explained the connections between knowledge and value creation for the first time. In 1994, Tango, the first IC product for consultancy purposes, was introduced to the market. Already in 1993 Edvinsson published the first internal prototyped IC report in the world based

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<sup>3</sup> RTD is short for Research and Technology Development.

on his ongoing efforts in Skandia to measure and account for IC. Later on in 1996 this was followed by the his IC innovation tool, Skandia Future Center, as a lab for IC development. In the late 1990s, IC as a hot topic was introduced to executives, consultants, managers and scholars etc. It soon located a wide readership and advocates. In recent five years, various IC applications were brought to another level of analysis: IC is now stepping out of business context and is becoming more and more relevant to regional or national prosperity.

### **3. Developing a Chinese viewpoint of IC management based on Laozi's philosophy**

Confucius's social philosophy is well known for a pair of concepts, namely, "compassion" (in Chinese, *Ren*) and "rules of proprieties" (in Chinese, *Li*). What could be the core concepts that of equal status in Laozi's philosophy? Many people believe that Laozi's theories are primarily concerned with "Wu Wei", a central concept in his magnum opus *Daodejing* (commonly known as the "Classic of the Way and Virtue" in Western countries), which is literally translated as "non-action" or "not acting". In fact, the concept of "Wu Wei" is very complex, for it contains different implications in different contexts. To ponder the implications "Wu Wei" brings us back to the core of Laozi's philosophy, where a pair of concepts "wholeness" and "partiality" draws our attention. Laozi mentioned "the Way" (in Chinese, *Dao*) from the first chapter of *Daodejing*. He explained to us that "the Way" is wholeness and infinity, while everything else is partiality and finitude. It is worth noting that "the Way" is neither a fixed being, nor an airy apparition. According to *Daodejing*, "the Way" as the ideal of all existence is unseen, not transcendent; powerful yet humble: it is the root of all things. Put another way, when humans encounter "the Way", they would not be treated differently. As one of the many manifestations of "the Way", human being should live one's life to be in harmony with "the Way", to revert to one's authentic self, being as true and pure as an infant

Take chapter 8 "Water" for example, Laozi wrote:

*The supreme good is like water,  
which nourishes all things without trying to,  
flowing naturally;  
It contents with the low places that people disdain,  
Just like the Way itself*

*In dwelling cherish the place  
In heart-mind cherish depth and stillness  
In being-with cherish giving and inspiring  
In government cherish quietude and harmony  
In deeds cherish broadness and effectiveness  
In motions cherish flowing with the moment*

*For water does not contend, none contends against it.*

Obviously, this chapter is not only about "water". Water herein is personalised to transmit the spiritual features shared by human beings. Throughout his life, Laozi never attempts to find himself a position to dwell at. His theories give considerations to both emotions, knowledge, rationalities and sensations. Instead of directing ambiguity, chaos, and oppressions to the outside world, Laozi invites people to look into their internal state of minds and to find explanations from within in the first place. This point is distinctively different from modern philosophy of the West since Descartes, which sets human agents and their representations of the world apart from the substances of the 'objective' world. In retrospect, historical development of IC in Western contexts witnessed the flourish and the wane of many different schools of thought. One lesson learned is that neither a prescriptive nor a descriptive approach will enable IC research and practice to go a long way. Laozi's ideas of "the Way", represented in its various dimensions, provide a good framework to think about how different approaches could accommodate rather than assimilate each other.

### **4. Linking Laozi's philosophical ideas to IC practice in China**

Peter Drucker (1993) in his book *knowledge society* argues that knowledge as an important resource in the

production of wealth has not yet been fully understood, and an economic theory that places knowledge at the centre of the value creation process is imperative. Today, in the field of IC or knowledge management, many theoreticians attempt to get their points across that the model of value creation has been changed to a great deal due to the shift of demanded resources. Nevertheless, they fail to elucidate what they mean by value. As Edvinsson argues that value exists in the eye of beholders, and the dynamics of value are usually a lot more than money (Edvinsson, 2002: p47). IC as a cross-disciplinary area should give value a second thought in tune with altered preferences. For instance, China's biggest telecommunications firm, China Mobile, issued its first CSR (Corporate Social Responsibility) report in 2007. This report came as a surprise, because the concept of CSR was still relatively new to Chinese business community. However, dating back to 2005, when President Hu announced the policy of building a harmonious society, the connotation of this police, be it to change China's business environment or to meet extra-economic challenges such as rural poverty, income inequality, environmental degradation etc., was self-evident to those proactive businesses. Similarly, a domestic insurance company has started working with the government to provide rural insurance to less-privileged farmers. This firm clearly "follows with the moment", in Laozi's term, because it pays enough attention to the altered value preference and therefore discovering a new way of doing businesses.

## 5. The role of leadership and Innovation in IC management

From the epic of Lee Iacocca to the legendary of Jack Welch, the dream of finding a heroic CEO who is capable of leading a firm towards prosperity has never faded. CEO should be 'the one' that combines extraordinary intelligence, courage, and charisma, just like superman. In the context of knowledge economy, however, there is little likelihood that the dream will come true. As early as 1990s, Edvinsson gave this caveat that leadership is not about individualism. Individual capabilities are restricted to all kinds of objective conditions, in particular, the human beings' cognitive limitation. In contrast to the top-down approach of leading, IC management is more inclined to "leading from behind", "grass-root leading" or "leading with respect". This emphasis correspond to the literal meaning of IC in Chinese, that is, the return to knowledge root that is underpinned by people, structure and relationships. It also links to Laozi's theory of leadership. The best leader, exemplifying in the 17<sup>th</sup> Chapter of *Daodejing*, is the one whose existence is barely known by others<sup>4</sup>. The translation is adapted from Tekson Teo's translation on <http://www.tao-in-you.com/>.

*"The best leader is the one people hardly know who exists.  
The next best is a leader who is loved and praised.  
Next comes the one who is feared.  
The worst is the one who is despised.  
If leaders don't have faith in their people,  
Their people will become unfaithful to them  
The best leaders value their words, and use them prudentially.  
When best leaders has accomplished their tasks,  
Their people say, "Amazing:  
we did it, all by ourselves!"*

Edvinsson uses analogies to reify this point. First, leader as navigator must be able to tell the position, direction and speed of his/her organisation and make everyone in the organization feel valued. The second metaphor is that leader as storyteller knows how to make use of stories in his/her organisations to convey information and mobilise resources. Storytelling is believed a very effective and easily accepted method to transform people's cognitive and behavioural patterns. For instance, the leader of China's well-known producer of household appliances, Haier, is reportedly very skilful in telling stories. Haier's stories not only help establish a positive image of the company, unify its employees, but also open a door for outsiders to learn about the firm and feel emotionally close to Haier. The CEO of Haier, Mr. Zhang Ruiming, once explained his vision of Haier's strategic internationalisation: "we rely heavily on our intangible assets to activate tangible assets. In terms of intangibles, we motivate people first, and then give considerations to

assets, the nub of motivating people is nothing but to update their perceptions... this is a unique approach we should hold on to.”

## **6. The New bottom Line**

According to Laozi’s theories, the overemphasis of economic value belies other value options available to the society. Conventional accounting method, which is only capable of telling the past or the present earning capability of a firm (Mouristen, 2002) might mislead investors to make an irresponsible decision by overlooking the social and environmental costs hidden behind the apparent economic benefits. At a society level, the priority of value creation is not to repeat “performance myopia” at the expense of a large social bill, and that is why the harmonious society policy came into being in China. The IC framework, no matter functioning under a micro or a macro level, is potentially capable of finding out the causes of imbalanced business agenda. This is because IC retains a core of attending to people and relationships inside and outside organisations. Only a balanced and healthy relationship with stakeholders’ recognition can sustain the firm to grow in the long run. As Mr. Wang Liwen, secretary general of China National Committee for Pacific Economic Cooperation Business Forum, debriefed journalists in the press conference, "The majority of Chinese entrepreneurs have not realized the true lucrative potential in intellectual capital such as intellectual property, brainpower or corporate culture... entrepreneurs should keep in mind that even when the market encounters downturn, a well-known brand or a developed management system is still able to help a company to survive<sup>5</sup>." (XINHUA News Agency, 2008) With this context in mind, we believe that IC research and practice will have a positive outlook in China considering China’s unique cultural heritage and determination to solve its development challenges in the next decade or so.

Laozi’s theories are not only applicable to Chinese contexts, the second author of this paper clearly witnessed that things have been developing in the way that Laozi described in Sweden.(See more information at [www.bottomline.se](http://www.bottomline.se)) Basically, Laozi’s philosophical thinking is about the long term perspective of nourishing the roots and the culture for a sustainable value creation.

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<sup>5</sup> See more at [http://www.china.org.cn/business/financial-crisis/2008-11/22/content\\_16809024.htm](http://www.china.org.cn/business/financial-crisis/2008-11/22/content_16809024.htm), retrieved 24<sup>th</sup> Nov. 2008

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