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## Critical Perspectives on Accounting

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### Editorial

## Critical intellectual capital<sup>☆</sup>

Intellectual capital may be proposed to be a reporting and management technology of relevance in knowledge society. It reports on the size and development of knowledge resources found in entities such as employees, customer relations and in technology. The claim is that by tracing and understanding the movements of and between these entities it may be possible to account for the development of knowledge based organisations and societies. Consequently, there is optimism about intellectual capital because of its proposed capacity to account for value creation and value delivery in knowledge society (Mouritsen, 2006).

### Knowledge

However, knowledge society is not clear about the effects and value of knowledge. Rather, knowledge has become a problem, an unruly resource, which has to be managed. Politicians attempt to search for knowledge that fosters growth in national economies, while businesses search for knowledge that makes products, processes and procedures valuable. Not all knowledge does this. Drucker (1993) tells us that knowledge has become the key, but unfortunately also ambiguous, resource in knowledge society:

“The only – or at least the main – producers of wealth are information and knowledge. . . How knowledge behaves as an *economic* resource we do not yet fully understand. . . . We need an economic theory that puts knowledge into the centre of the wealth-producing process.”

We do not quite know how knowledge is a resource and this creates a puzzle. If knowledge is the most important resource but also one whose properties and effects we cannot account for, what use is it? The irony is that knowledge is used and practically adopted in our conduct but in ways that create disruption rather than coordination. Rather than making firms and societies more certain, it has a tendency to make them more uncertain. The growth of knowledge reflexively mobilised is increasing dramatically in knowledge society; this new knowledge creates insight which is used to alter processes and procedures and therefore, with new knowledge comes new patterns of interaction. New knowledge produces change and thus uncertainty, as Giddens (1990) says:

“The reflexivity of modern social life [is] that social practices are constantly examined and reformed in the light of incoming information about those very practices, thus constitutively altering their character”

When knowledge creates value it transforms organisations and societies; it breaks them down. This is not an attractive prospect for a government or for a manager who insist that coordination and coherence have to be preferred. Beck's (2009) description of a knowledge society primarily haunted by risk – by the unintended effects of knowledge – will be a nightmare for governments and managers. When effects cannot be held in command what is the use of management?

Therefore there may be more dimensions to knowledge than the mere determination of truth and falsity. As Jean Francois Lyotard (1984) suggests there are other ways in which to determine the relevance of knowledge such as whether it usually works, whether it is fair and ethical, or whether it is beautiful. Truth will not be the only mechanism to determine the value of knowledge. This makes the evaluation of knowledge a question of its effects rather than of – or in addition to – its logic and evidence. Knowledge is not strong because it is true; it is strong when it fits the situation. There is therefore a relationship between knowledge and power. Knowledge may enable transformation (power); but power may also influence the

<sup>☆</sup> We wish to extend our thanks to David Cooper and Robin Fincham for their continued support in making this special issue possible.

production and justification of knowledge (Foucault, 1980). The relationship between knowledge and power (intervention) is a precarious one which is constantly under construction.

In firms this means that not all knowledge is good knowledge. Many new ideas are most likely bad ideas because if implemented they would require the firm to invest heavily in technology and markets and this will bar the relevance of ideas; this would be expensive. There is a barrier to the adage that firms thrive on ideas. They only thrive on ideas that will fit the investments that have already been made, one might assume. Managers are as much concerned with barring ideas from becoming too accepted as with promoting ideas and knowledge. This is a management dilemma. It is possible that to advance in knowledge society, firms may need to restrain the development and application of knowledge and ideas.

### **Intellectual capital**

The potential of intellectual capital is to act as some form of management technology that may mediate knowledge and political or organisational decision making. Knowledge is not readily counted in intellectual capital statements but knowledge containers are. Knowledge containers sum up activities and effects in the name of knowledge. So, the knowledge container designated human capital sums up aspects of employees putatively related to knowledge. This may be education, experience, results and many more items that indicate even if not represent knowledge. This container is assumed to develop creativity. Another knowledge container, designated structural capital, sums up aspects of activities and effects that codify knowledge in systems and procedures. This may be investments in technology, use of technology, application of templates and prescriptions, and use of computer based models e.g. in sales situations. This container is assumed to reproduce best practices. A third conventional knowledge container is designated customer capital, which consists of activities and effects in relation to customers. This may range from the firm's knowledge about the customer to customers' knowledge relevant to the firm. This container usually is assumed to valorise knowledge.

The potential offered by intellectual capital is to trace the development of knowledge containers in terms of size, investments and effects. This may create an overview of the structure and development of knowledge containers and be an input that will allow reconsideration of its composition. The effect is potentially the unsettling of organisational practices. Intellectual capital may induce change by developing new constellations between employees, customers, technology and organisational processes. This is not only an expansive corporate agenda; it is also an agenda that quickly will raise the question of the role of people – employees and customers – in such a transformation. The claim is that many transformations may be concerned with exploiting the knowledge of individuals for corporate purposes. The now tired bon mot that people own their knowledge is challenged by intellectual capital because its agenda of transformation may extract individuals' knowledge and make individuals superfluous. Individuals' knowledge may be codified and used in completely new contexts far removed from the individual.

### **Measurement and ethics**

Such an agenda raises two interrelated concerns: does the measurement of knowledge (resources) produce effects; and is the concern to inscribe the person in the intellectual capital statement an act of appropriation which raises ethical concerns? The papers contained in this issue all raise these concerns in different ways. Is it possible to describe the person? Is it possible to make sense of the descriptions of the person that we encounter in intellectual capital statements? The papers are critical of the possibilities for description, but then the question turns up whether this description can be mobilised by users? Here the papers are less united. For example, it may be that correlations between numbers about intellectual capital are useless, but it is not clear that narratives added to numbers are always inconsequential. Actually, as some of the papers do propose, narratives may be strong formulations on top of the numbers to create interested – rather than reflective – accounts of the future facing firms and societies. This raises an ethical issue – is this misrepresentation, and does ethics have a place in intellectual capital? Drawing on empirical evidence the papers suggest that in some situations numbers about ethics and the opportunity for self-accounts may provide an ethical lens; but this is a precarious one expected not to be able to survive in firms under duress.

The papers of this special issue share a concern with calculation, numbering, quantification and measurement. In various ways they each are concerned with the referents of intellectual capital. This concern with representation is important, the papers suggest, because the relation between the numbers of intellectual capital stands in difficult relation to the knowledge it purports to represent. This small issue turns into a larger issue in the papers to follow because they recognise in different ways that representation of knowledge has important political, ethical, social and organisational implications.

Maria Mårtensson discusses the possibility and ethicality of putting people into numbers. Drawing on a comparison with the development of political arithmetic from the 1800s she emphasises how numbering is fraught with technical and political difficulties. In particular pointing out how a then emerging 'quantifying impulse' was directed at numbering just about everything even if the particular calculations were often coarse they were instrumental e.g. in predicting how many people should be located in a particular region or estate. The concern with numbering, and also the problems of finding good measurement, exists also in the realm of intellectual capital where numbers, correlations between numbers, and the balance between numbers (there may be more assets than liabilities in intellectual capital) can be criticised. Mårtensson says that contemporary measurement of intellectual capital may be so fragile, partial and devoid of meaning that they run the danger of becoming coarse and thus fraught with political difficulties.

A similar, yet different approach to the limitations of intellectual capital measurement is presented by Ken McPhail who asks whether there is an ethical element in intellectual capital. While it is easy to see that intellectual capital is related to questions of value and value creation, it is less clear whether representations of employees should be and are purely instrumental. Suggesting that there is a possible critique of intellectual capital from the perspective of the ethical, McPhail illustrates that ethics is hardly an integral part to intellectual capital; however, it is possible to find empirical accounts of intellectual capital where the concern with ethics is centred. This does not mean that these accounts resolve ethical questions; yet it does mean that intellectual capital could develop an agenda which is more conscious of the tensions associated with making people resources.

The concern with resources is manifested clearly, but differently, in Christian Nielsen and Mona Toft Madsen's account of possible relationships between numbers in Intellectual Capital Statements and transparency. They state clearly that numbers do not create transparency as such. An overlay of language, of business models and transparency, develops the identities of the numbers. They identify two types of discourses of transparency in the intellectual capital literature – one concerns a general strategy to publish many items of information which readers then can make sense of individually, and another concerns the management controlled narrative of the production of value. Nielsen and Toft Madsen identify the dilemma that quantities of information may not make readers more knowledgeable, and that management controlled narrative may create a tyranny of transparency serving only few interests. There is a paradoxical possible trade-off between understandability and serving information needs.

The problem of transparency, visibility and understandability is also raised by Catherine Gowthorpe emphasising that in many ways the intellectual capital concept is one-sided and partial. It does not recognise liabilities, it does not allow re-evaluation, and it is not cognisant of ethical and social dilemmas. Her account is one which lays out the boundaries of intellectual capital and identifies that the absence of a framework or complete conceptual model will make it a very difficult representation of resources. Gowthorpe clearly points to the problems of the metrics of intellectual capital showing that by far, they cannot stand alone. In effect the boundaries of intellectual capital are porous and as a formal project, intellectual capital will have difficulties.

The final paper by Robin Roslender and Joanna Stevenson links intellectual capital with the continuing challenge of 'accounting for people' via its human capital component. It documents the UK Government's brief 2003–2005 flirtation with the idea of incorporating a modest set of information on human capital management initiatives within companies in an expanded financial reporting package. Roslender and Stevenson identify a worrying absence of any discernible attempt to engage with the intellectual capital concept and associated literatures during this period. They see this as confirming that entrenched opposition to accounting for people persists within both the accountancy profession and executive managements in the UK and probably beyond. In their view, far from providing a further, highly valuable management technology, intellectual capital may not be a beneficial development for promoting the interests of people within the organisation, thereby meriting the further attention of critical accounting researchers.

### Ways ahead

The papers show that research in the area has not saturated with an account of the role of the individual, the role of knowledge and an account of value. They also indicate interesting research avenues that will complement and possible substitute studies that only focus on explaining the role of intellectual capital via correlations between items of intellectual capital and financial value.

Currently, the vast majority of papers in the intellectual capital field are focused on reporting how organisations struggle with accounting for, i.e. measuring and reporting, intellectual capital. To a significant extent, this work is unquestioning of the practices themselves, as well as the thinking that underpins them. Perhaps intellectual capital accounting has become part of the mainstream, if only in a small way. In our view, the papers collected in this issue demonstrate that the intellectual capital topic exhibits many dimensions that will benefit from a more thoroughly critical perspective, something which, to date, has not featured widely in the literature. If the intellectual capital concept is as central as some claim it to be, it is vital that it is fully understood and exploited in the quest for social betterment.

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