

# Intellectual Capital Management

## — a hidden factor for business success

As the economy returns to optimism, businesses are getting back on track and willing to move forward toward their targets. The outlook looks good for those who are well prepared, so it is essential for businesses to recognize their strengths and weaknesses to reach for their goals. Intellectual Capital, a key resource for every company – maybe your winning ace.



**Stephen Selby**  
Director of the  
Intellectual Property

While Intellectual Capital (IC) plays a crucial role in every business, a lot of local companies are not aware of its importance and significance, and the impact it can make on their businesses. They often overlook the importance of Intellectual Capital Management (ICM).

When you run a small business, it's a temptation not to invest time or money into management theory. It seems like a time-consuming process which requires a lot of attention and resources. But actually, according to Stephen Selby, Director of the Intellectual Property, once you understand the basics, ICM is a very simple and easy task which any enterprise can use to sharpen their business edge.

Last year, the Intellectual Property Department launched their first Intellectual Capital Management Consultancy Programme to help local enterprises manage their IC. This free consultancy service has been able to help local companies to identify their strengths and weaknesses through recognizing their IC.

Among the participating enterprises, some were able to produce their own IC reports, and 14 of them have published their reports and received the "Excellence in ICM" award.

"Through just six hours of consultation, enterprises can gain a thorough understanding of what IC is, and get a clear understanding of the kinds of IC they possess, and how to manage them," said Selby. "Luckily, under encouragement, a lot of these enterprises were willing to do their IC reports. We are pleased that 14 of them published their reports – actually more than we expected."

Commenting on the local trend to ICM, Mr. Selby said: "Though Hong Kong is not the first city to promote ICM, it is comparatively advanced in management strategies as compared with other countries and regions."

"We have launched the "ICM Lite" concept which is an easy and simple form of ICM. SMEs do not need to invest a lot of time or money, all they need is to contribute a few hours while our ICM consultants guide them and help them know more about the IC they possess. Within one year's time, around 320 enterprises have joined the scheme, which is a breakthrough among places where ICM has started to get established."

In view of last year's success, Phase II of the Intellectual Capital Management Consultancy Programme was officially launched earlier this month, with five banks joining the program to help promote ICM.

The five banks are: the Bank of China (Hong Kong) Limited, Chong Hing Bank Limited, Citi Commercial Bank,

Hang Seng Bank Limited and the Bank of East Asia Limited. These banks will offer more favorable financial and/or service privileges to successful business loan applicants who have prepared their own Intellectual Capital reports.

"This is a win-win arrangement as company executives will be better prepared to explain the strengths of their businesses to lenders, while at the same time they are providing non-financial data which can help banks identify good customers," said Mr. Selby.

"To enterprises, it is very important to have a full knowledge about your own strengths and weaknesses to achieve success. ICM is about identifying yourself, as stated in Sunzi's Art of War: 'If you know the other side and know yourself, you need not fear the outcome of a hundred battles.' Once you know what you have and understand your surroundings, things that once seemed useless or even a hindrance to development, can be turned around to your advantage."

According to Mr. Selby, this is exactly what effective ICM can do. Through ICM, an enterprise can identify the risks they have, analyze these risks and develop effective measures to reduce them. It is also a simple and easy task that enterprises can do, regardless of their scale or location.

"With regards to the Government's effort toward developing the six creative industries, ICM can help them as well," said Selby. "It can also be implemented by non-government organizations, charities, social enterprises and small family businesses. It's not about finding new resources to invest; it's about making the best investment of resources you already have."

Looking forward to the local development of ICM, Mr. Selby sees both challenges and opportunities ahead.

"The challenge we face is that it is very hard to establish a standard for ICM, unlike accounting reports which have recognized standards and formats," he said. "To try and solve this problem, we are starting to compare ICM from different regions and see if it is possible to come out with certain standards with the help of a group of experts."

"We also hope that the market for ICM will expand and that different non-government organizations and firms will be willing to provide ICM consultation services as well," Selby said. "Also, we hope that courses which can teach people how to write Intellectual Capital reports can be offered in universities and other organizations in the near future."

### Intellectual capital

- Educational qualifications, skills and experience. (Human Capital)
- Training programmes, work manuals, computer systems, patents and trademarks. (Structural Capital)
- Value-creating relationships with stakeholders. (Relational Capital)

## Message from Professor Leif Edvinsson

The work by Intellectual Property Department (IPD) and the unique team of Intellectual Capital Coaches during 2009 was a pioneering effort. It is a show case to not only Hong Kong and China but also to the Knowledge Economy of the world, with more and more value in the intangibles. IPD has both identified the importance of Intangibles, made a specific first Annual report on its own Intellectual Capital and initiated specific thrust on SME opportunities of Intellectual Capital in Hong Kong as a new source of value and job creation.

The specific recruiting of the IC coaches with a suitable background and skill in the business sector, combined with the solid introductory training of the IC coaches as well as the specific, systematized IC scheme of IPD is a quality stamp. The IPD program on Intellectual Capital is very innovative as it identifies hidden values in SMEs, and combines it with the other IPD programs on IP-Intellectual Property, into trade opportunities.

So to continue this pilot program for another year is an illustration of societal entrepreneurship to the benefit of the business community of Hong Kong. It will identify and leverage more hidden and often idle intangibles among Hong Kong SMEs and align those to the global progress of Intellectual Capital value creation.



Professor Edvinsson is a key pioneering contributor to the theory of Intellectual Capital (IC) and sometimes he is called the Grandfather of IC. As the world's first director of IC in 1991, he initiated the creation of the world's first public corporate Intellectual Capital Annual Report 1994, and inspired the development ever since on IC metrics. He has become the World's First Professor of IC, and for his pioneering work appointed as "Brain of the Year 1998". He also founded the World's First Future Center, as a space for Service and Knowledge Innovation.



香港特別行政區政府知識產權署  
The Government of the Hong Kong Special Administrative Region  
Intellectual Property Department

## Words from winners of the Excellence in Intellectual Capital Management Award

### Kwong Fai Metal Products Limited

"We obtained a thorough understanding of our internal management through the consultation sessions and the process of compiling the IC report. It helped us immensely with management, company positioning and business development," said Ranke Leung, Finance and Administration Manager.

"As we thank the ICM consultants, I would recommend the ICM program to the industry. As metal product manufacturing is not a high-tech industry, management of intangibles is very important."



### Lapwing Design Limited

To Designer Diana Lai, tangible capital can be determined by its accounts department, but an intangible asset is like a cloud: it is visible but what's inside is unknown. Driven by the belief that "knowing more is better," she found that ICM helps reduce risks and benefits daily operations.

She said: "ICM is useful to the design industry. Creativity means something currently not on the market, which is prone to pirating and copying. ICM helps protect our works through trademarks and increases clients' confidence in us."



### New City Computer System Consultants

As an ERP software developer, they have a wealth of knowledge. ICM helped them understand, manage and protect their IP capital. Principal Consultant Ernest Wan was happy that the free consultancy program gave him no pressure to do the report and helped organize the company's knowledge.

"The program helped us realize the importance of human capital and that our strength lies in our good working environment and reasonable working hours. We have a system and structure in place to keep our operations going when staff leaves the company," he said.



### On Hing Paper Company Limited

Nancy Pau, Managing Director of this Hong Kong major paper and paper products supplier, is very pleased to be an award recipient.

Her view of the program is very positive: "It has been a very good experience using this free government service. This is a program worth participating in. We obtained tremendous support from the ICM consultants and through the process we developed a much better understanding of the company as a whole to help formulate our future targets."



### Schmidt Electronics Group Limited

This technology company is no stranger to intellectual capital protection, but ICM is new to them, although it is well established in Europe and Japan. With no common global standard, understanding and acceptance among staff takes time. But Chief Financial Officer Daniel Lin believes that the benefits outweigh the challenges.

"Our 100 years of history have accumulated lots of intellectual capital. ICM is a simple and systematic 'stock-take' that accurately consolidates all intangible assets. We are occupied with daily operations and ICM provides a good opportunity for review. It helped us find our strength, discrepancy and opportunity for further development."



## Other Winners of "Excellence in Intellectual Capital Management" Award

- Accredited Certification International Limited
- Association Concerning Sexual Violence Against Women
- China Global Lines Limited
- Hugogate Limited
- International Service Access Ltd.
- Kwong Wing Cargo Service Ltd
- Leo Paper Group (Hong Kong) Ltd
- Luv Inc.
- The Hong Kong Institute of High Performance Computing

## Comments from participating banks

### The Bank of East Asia

Paul Lai, Head of Business Development Department: "The ICM programme is a good opportunity for SMEs to evaluate their strengths and the value of their intangible assets. To banks, the intellectual capital report gives them a deeper understanding of the SMEs' business and operations, which is important as it increases transparency. Intellectual capital reporting is at its infant stage in Hong Kong and the programme serves as a great start. We look forward to its development and hope it can evolve into a sophisticated report that can be authenticated by professionals."

### Chong Hing Bank

"Chong Hing Bank supports the ICM programme to maximize participating enterprises' hidden potential for business expansion. We believe that intellectual capital reports provide an extra source of information on the credibility of the enterprise which goes beyond the scope of traditional financial information, thus help banks to better understand SMEs. As a bank, we focus on their intellectual capital stock in servicing the needs of their stakeholders, exploiting their business potential and minimizing business risk."

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